PASHA YATIRIM BANKASI A.Ş.

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

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Independent auditor's report

To the Board of Directors of Pasha Yatırım Bankası A.Ş.

Report on the Audit of the Financial Statements
Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Impairment of loans and advances

There is a potential risk that loans and advances are impaired and no reasonable impairment losses/provisions are provided in accordance with the requirements of IFRS as determining the adequacy of impairment allowance on loans and advances to customers is a key area of judgment for the management. Accordingly, loans and advances to customer is a key area of judgement for the management. Accordingly, carrying amount of loans and customers might be greater than the estimated recoverable amounts, therefore the impairment test of these loans of advances is a key audit matter. Refer Note 10 to the financial statements relating to the impairment of loans and advances.

Our audit procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and advances. We also assessed whether impairment losses for loans and advances were reasonably determined in accordance with the requirements of IFRS. In addition we assessed and tested the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to conclude on the operating effectiveness of the key controls in place, which identify the impaired loans and advances and the required provisions against them. Finally, we also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to credit risk.

Other matter

The financial statements of the Bank as of December 31, 2015 were audited by another independent audit firm, who expressed an unqualified opinion in their audit reports dated March 8, 2016.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

From the matters communicated with the Board of Directors 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Damla Harman.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

İstanbul, Turkey
March 1, 2017

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STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Audited 31 December 2016	Audited 31 December 2015
ASSETS			
Cash and cash equivalents	7	59,134	48,248
Reserve requirements at Central Bank	8	19,579	11,772
Derivative financial assets	17	281	604
Investment securities available-for-sale	9	20,538	9,619
Loans to customers	10	402,370	243,614
Property and equipment	12	681	504
Intangible assets	13	981	468
Deferred tax assets	18	989	1,053
Other assets	11	4,604	4,819
TOTAL ASSETS		**509,157**	**320,701**
LIABILITIES			
Amounts due to customers	4,14	3,536	59
Amounts due to banks and money market deposits	4,15	16,344	10,213
Funds borrowed	16	191,897	71,311
Employee benefits	20	1,702	1,324
Derivative financial liabilities	18	1,603	48
Debt securities issued	17	37,239	-
Current income tax liabilities	19	2,079	482
Other liabilities	4,8	6,828	5,746
Total liabilities		**261,228**	**89,183**
EQUITY			
Share capital	21	255,000	255,000
Retained earnings/(Accumulated deficit)	21	(7,406)	(23,716)
Other reserves	21	324	324
Unrealised gains/(losses) on investment securities available-for-sale		11	(90)
Total equity attributable to shareholders of the Bank		**247,929**	**231,518**
Total equity		**247,929**	**231,518**
TOTAL LIABILITIES AND EQUITY		**509,157**	**320,701**

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

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Audited 31 December 2016	Audited 31 December 2015
Interest income			
Loans to customers		33,683	17,647
Investment securities available for sale		1,630	1,252
Money market placements		186	587
Cash and cash equivalents		1,579	6,626
Amounts due from credit institutions		148	71
Total Interest Income		**37,226**	**26,183**
Interest expense			
Amounts due to customers		(23)	-
Funds borrowed		(5,000)	(768)
Money market deposits		(678)	(269)
Amounts due to the debt securities issued		(751)	-
Other		(262)	(126)
Total Interest Expense		**(6,714)**	**(1,163)**
Net interest income		**30,512**	**25,020**
Reversal/(charge) of impairment on interest bearing assets	10, 24	**630**	**(1,662)**
Net interest income after provision for impairment losses		**31,142**	**23,358**
Net fee and commission income	25	1,130	304
Net gains/(losses) on sale of investment securities available-for-sale		(23)	(460)
Net gains/(losses) from foreign currencies:		4,807	1,662
- translation differences		(779)	(1,132)
- operations with foreign currency derivatives		5,586	2,794
Other income		99	40
Total Non-interest income		**6,013**	**1,546**
OPERATING INCOME		**37,155**	**24,904**
Personnel expenses	26	(8,294)	(7,025)
General and administrative expenses	26	(7,803)	(5,603)
Depreciation and amortization	12, 13	(515)	(275)
Non-interest expenses		**(16,612)**	**(12,903)**
PROFIT BEFORE INCOME TAX		**20,543**	**12,001**
Income tax expense	19	**(4,233)**	**(2,271)**
Net profit for the year		**16,310**	**9,730**

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

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2016

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Audited 31 December 2016	Audited 31 December 2015
Net profit for the year	**16,310**	**9,730**
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Net gain/(loss) on available-for-sale financial assets	126	(107)
Tax effect of net (losses)/gains on investment securities available for-sale	(25)	22
Other comprehensive income/(loss) for the period, net of tax	101	(85)
Total comprehensive income for the year	**16,411**	**9,645**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

Audited	Share capital	Retained earnings/ (Accumulated deficit)	Net unrealised gain/(losses) on investments securities available-for-sale	Other reserves	Total equity
01 January 2015	80,000	(33,446)	(5)	324	46,873
Net profit for the year	-	9,730	-	-	9,730
Other comprehensive income for the year	-	-	(85)	-	(85)
Total comprehensive for the year, net	-	9,730	(85)	-	9,645
Dividends paid	-	-	-	-	-
Cash contribution for share capital increase	175,000	-	-	-	175,000
31 December 2015	255,000	(23,716)	(90)	324	231,518
01 January 2016	255,000	(23,716)	(90)	324	231,518
Net profit for the year	-	16,310	-	-	16,310
Other comprehensive income for the year	-	-	101	-	101
Total comprehensive for the year, net	-	16,310	101	-	16,411
Dividends paid	-	-	-	-	-
Cash contribution for share capital increase	-	-	-	-	-
31 December 2016	255,000	(7,406)	11	324	247,929

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

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Audited 31 December 2016	Audited 31 December 2015
Cash flows from operating activities			
Interest received		34,140	20,108
Interest paid		(2,346)	(718)
Fee and commission received		1,260	1,228
Fee and commission paid		(217)	(234)
Cash payments to employees		(7,969)	(6,000)
Cash received from other operating activities		5,887	(884)
Cash paid for other operating activities		(7,776)	(4,946)
Income and other taxes paid		(2,691)	-
Cash flows from operating activities before changes in operating assets and liabilities		**20,288**	**8,554**
Changes in operating assets and liabilities			
Due from banks		(7,630)	(11,619)
Financial assets at fair value through profit or loss		-	(556)
Loans to customers		(155,696)	(188,748)
Other assets		4,235	2,657
Due to other banks and other money market deposits		6,122	9,113
Due to customers		3,477	59
Net increase/decrease in funds borrowed		116,978	64,273
Other liabilities		(2,676)	(4,993)
Net cash used in/provided by operating activities		**(35,190)**	**(129,814)**
Cash flows from investing activities			
Purchases of available for sale investment securities		(28,689)	(11,663)
Proceeds from sale and redemption of available for sale investment securities		18,352	3,834
Acquisitions of property and equipment		(364)	(334)
Acquisitions of intangible assets		(841)	(433)
Net cash (used in) provided by / (used in) investing activities		**(11,542)**	**(8,596)**
Cash flows from financing activities			
Proceeds from debt securities issued		36,488	-
Issued capital instruments		-	175,000
Other		-	(147)
Net cash provided by financing activities		**36,488**	**174,853**
Effect of net foreign exchange differences on cash and cash equivalents		842	2,153
Net increase / (decrease) in cash and cash equivalents		10,886	47,150
Cash and cash equivalents at the beginning of the year	7	48,248	1,098
Cash and cash equivalents at the end of the year	7	**59,134**	**48,248**

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

1. Principal activities

PASHA Yatırım Bankası A.Ş. ("the Bank", "PASHA Bank"), set up in Istanbul on 25 December 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey. With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795 of the Bank's capital by PASHA Bank OJSC and increase in the paid-in capital from TL 80,000to TL 255,000 upon the acquisition were approved by the BRSA's decision dated 26 December 2014 and numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as at 25 February 2015. Paid-in capital increase from TL 175,000 to TL 255,000, approval of the share transfer and changing the Bank's title as "Pasha Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "PashaYatırım Bankası A.Ş." was registered on 2 March 2015 and announced at the Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773. Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing Pasha Bank OJSC shares from %79,9196 to %99,9196 has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

Partnership structure of the Bank as of 31 December 2016, is stated below:

	Capital	Share Rate
PASHA Bank OJSC	254,795	%99.9196
Other	205	%0.0804
Total	**255,000**	

The financial statements were authorised for issue by the Board of Directors on 1 March 2017.

2. Summary of significant accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss, available-for-sale investments.

The financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

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

2. Summary of significant accounting policies (continued)

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes and contingencies from litigation. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2. Adoption of International Financial Reporting Standards (IFRS)

The following new standards, amendments and interpretations which are effective as at January 1, 2016 do not have a significant impact on the Banks's financial statements.

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

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

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

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

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

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

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

IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

• At cost

• In accordance with IFRS 9,

Or

• Using the equity method defined in IAS 28

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

2. Summary of significant accounting policies (continued)

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

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

IAS 1: Disclosure Initiative (Amendments to IAS 1)

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

Annual Improvements to IFRSs - 2012-2014 Cycle

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

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

- IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located
- IAS 34 Interim Financial Reporting – clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

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

Standards issued but not yet adopted:

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

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

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

2. Summary of significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

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

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

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Bank has performed a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Bank in the future. Overall, the Bank expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Bank expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

2. Summary of significant accounting policies (continued)

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

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

IAS 7 Statement of Cash Flows (Amendments)

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

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

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

b. share-based payment transactions with a net settlement feature for withholding tax obligations; and

c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

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

IFRS 4 Insurance Contracts (Amendments)

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The interpretation is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The interpretation is not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after January 1, 2018.
- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after January 1, 2017.
- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

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

2. Summary of significant accounting policies (continued)

2.3. Foreign currency transactions

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

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency translation rates used by the Bank as of December 31, 2016 and 2015 are as follows:

	EUR/TL	USD/TL
December 31, 2016	3.7099	3.5192
December 31, 2015	3.1838	2.9181

2.4. Regular way purchases and sales

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognized on the settlement date apart from trading and investment securities and derivative instruments, which are recognized on the trade date, which is the date that the Bank commits to purchase or sell the asset.

2.5. Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps and other derivative financial instruments are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Derivatives are presented in assets when favorable to the Bank and in liabilities when unfavorable to the Bank. Financial assets or liabilities at fair value through profit or loss are initially recognized and subsequently re-measured at fair value. All related realized and unrealized fair value gains and losses are included in net trading income. Interest earned or paid whilst holding financial assets or liabilities at fair value through profit or loss is reported as interest income or expense.

A derivative may be embedded in another financial instrument, known as "host contract". In such cases, the derivative instrument is separated from the host contract and treated as a separate derivative, provided that its risks and economic characteristics are not closely related to those of the host contract, the embedded derivative actually meets the definition of a derivative and the host contract is not carried at fair value with unrealized gains and losses reported in the statement of profit or loss.

Certain derivative instruments transacted as effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held for trading purposes.

2.6. Offsetting

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

2. Summary of significant accounting policies (continued)

2.7. Interest income and expenses

Interest income and expenses are recognized in the statement of profit or loss for all interest bearing instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, finance lease receivables, factoring receivables and due from banks, coupons earned on investment and trading securities and accrued discount and premium on treasury bills and other instruments.

Fees and direct costs relating to a loan origination or acquiring a security, financing or restructuring and to loan commitments are deferred and amortized to interest income over the life of the instrument using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.8. Fees and commissions

Fee and commission income is generally recognized on an accrual basis over the period the service is provided. Commission and fee arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts.

The fee and commissions paid to other institutions are recognized as transaction cost and recorded using effective interest rate method.

2.9. Financial assets and liabilities at fair value through profit or loss ("FVTPL")

This category has the following two sub-categories:

- Trading and
- Financial assets and liabilities designated at fair value through profit or loss.

2.9.1. Trading

The trading category includes securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists, and derivatives unless they are designated as and are effective hedging instruments. Trading securities may also include securities sold under sale and repurchase agreements (see Note 2.13 below).

2.9.2. Financial assets and liabilities designated at fair value through profit or loss

The Bank designates at initial recognition certain financial assets or liabilities as at fair value through profit or loss when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, for example the Board of Directors and Chief Executive Officer. The fair value designation, once made, is irrevocable.

2.9.3. Measurement

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognized at fair value and subsequently re-measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in net trading income and results from investment securities.

Interest income generated from financial assets are recognized under net interest income in the statement of profit or loss.

2. Summary of significant accounting policies (continued)

Dividend income is recognized in the statement of profit or loss when the right to receive payment is established. This is the ex-dividend date for equity securities and is separately reported and included in dividend income.

The amount of change during the period, and cumulatively, in the fair values of designated loans and advances to customers that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

2.10. Available for sale investments

Available for sale investments are initially recognized at fair value (including transaction costs) and subsequent to initial recognition are measured at fair value. Unquoted equity instruments whose fair value cannot be reliably estimated are carried at cost. Unrealised gains and losses arising from changes in the fair value of available for sale investment securities are reported in other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

Available for sale investment securities may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. When an available for sale investment security is disposed of or impaired, the accumulated unrealised gain or loss included in other comprehensive income is transferred to the statement of profit or loss for the period and reported as gains / losses from investment securities.

Impairment: The Bank assesses at each reporting date whether there is objective evidence that an available for sale investment security or a group of such securities is impaired.

Particularly for equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of profit or loss) is removed from other comprehensive income and recognized in the statement of profit or loss.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

Interest earned while holding investment securities is reported as interest income.

Dividend income is recognized when the right to receive payment is established (the ex-dividend date) for equity securities and is separately reported and included in dividend income.

2.11. Held to maturity investments

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding until maturity and the relevant conditions for fulfilment of such intention, including the funding ability exist, other than those that meet the definition of loans and receivables.

2.12. Loans and advances to customers

Loans and advances to customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, and the Bank does not intend to sell immediately or in the near term. Loans and advances to customers include those classified as loans and receivables and those designated as fair value though profit or loss.

2. Summary of significant accounting policies (continued)

Loans originated by the Bank are recognized when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method, unless they are designated as at "fair value through profit or loss" (see Note 2.9.2).

2.13. Impairment losses on loans and advances to customers

The Bank assesses at each reporting date whether there is objective evidence that a loan, or a group of loans is impaired.

A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan (or group of loans) that can be reliably estimated.

An allowance for impairment is established if there is objective evidence that the Bank will be unable to collect all amounts due according to the original contractual terms.

Objective evidence that a loan (or group of loans) is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(a) Significant financial difficulty of the issuer or obligor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;

(c) The Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) The disappearance of an active market for that financial asset because of financial difficulties; or

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

i. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or

ii. national or local economic conditions that correlate with defaults on the assets in the group.

The impairment loss is reported through the use of an allowance account on the statement of financial position. Additions to impairment losses are made through impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the statement of profit or loss.

The Bank assesses whether objective evidence of impairment exists individually for loans that are considered individually significant and individually or collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

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

2. Summary of significant accounting policies (continued)

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Loans and advances to customers are grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not currently exist.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the statement of profit or loss.

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

2.14. Sale and repurchase agreements

The Bank enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to repurchase agreements ('repos'), continue to be recognized on the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included within securities sold under agreements to repurchase in due to other banks or customer deposits, as appropriate. 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 fixed rate at a specified future date ('reverse repos') are not recognized on the statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in due from banks. 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.

2.15. Securities borrowing and lending

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in net trading income.

Respectively, securities lent and securities provided as collateral under securities borrowing transactions are not derecognized from the financial statements unless control of the contractual rights that comprise these securities transferred is relinquished.

2. Summary of significant accounting policies (continued)

The Bank monitors the market value of the securities borrowed and lent on a regular basis and provides or requests additional collateral in accordance with the underlying agreements. Fees and interest received or paid are recorded as interest income or interest expense, on an accrual basis.

Financial liabilities and equity

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

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities,

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

2.16. Derecognition

2.16.1. Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When 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, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

2.16.2. Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial 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 recognized in the statement of profit or loss.

2. Summary of significant accounting policies (continued)

2.17. Fair value of financial instruments

The Bank measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain OTC derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

2.18. Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Bank for use in the supply of services or for administrative purposes. Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into operating condition. Subsequent to initial recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are capitalised, only when it is probable that they will result in future economic benefits to the Bank beyond those originally anticipated for the asset, otherwise they are expensed as incurred.

Depreciation of an item of property and equipment begins when it is available for use and ceases only when the asset is derecognized. Therefore, the depreciation of an item of property and equipment that is retired from active use does not cease unless it is fully depreciated, but its useful life is reassessed. Depreciation on property and equipment is calculated using the straight-line method over their estimated useful lives as follows:

Furniture and fixtures	4-5 years
Machinery and equipment	3-10 years
Leasehold improvements	Over the term of respective leases

Expenses for repairs and maintenance are charged to expenses as incurred.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

2. Summary of significant accounting policies (continued)

At each reporting date the Bank assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. Where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the fair value less costs to sell and value in use. Impairment losses are recognized in the statement of profit or loss.

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

Subsequent gains may be recognized up to the amount of previous write-downs. Any gains or losses on liquidation or re-measurement of foreclosed assets are included in other operating income/ (expenses).

2.19. Intangible assets

Intangible assets include goodwill, purchased software.

Goodwill

Subsequent to initial recognition, goodwill is stated at cost, as established at the date of acquisition less accumulated impairment losses. The Bank does not have any transaction regarding goodwill.

Purchased software

Software includes costs that are directly associated with identifiable and unique software products controlled by the Bank that are anticipated to generate future economic benefits exceeding costs beyond one year. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of software. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any impairment losses.

Measurement

Software costs recognized as assets are amortized using the straight-line method over their useful lives, for purchased software the useful life is 3 to 4 years.

The carrying value of intangible assets is reviewed for impairment annually or more frequently when an indication of impairment arises during the reporting year.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

2.20. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

2. Summary of significant accounting policies (continued)

The Bank as a lessee

Finance leases: Leases where the Bank has substantially all the risks and rewards of ownership of the asset are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The outstanding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the statement of profit or loss over the lease period. All assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases: Leases where a significant portion of the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases. These include rent agreements of branch premises, which are cancelable subject to a period of notice. The total payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

The Bank as a lessor

Finance leases: When assets are leased out under a finance lease, the present value of the minimum lease payments is recognized as a receivable. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance leases are presented in finance lease receivables.

The Bank does not have any finance lease receivables.

2.21. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, unrestricted balances held with central banks, amounts due from other banks and highly liquid financial assets with original maturities of less than three months from the date of acquisition such as treasury bills and other eligible bills, investment and trading securities which are subject to insignificant risk of changes to fair value and are used by the Bank in the management of its short-term commitments.

2.22. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement recognized.

2.23. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract, other than those assessed as insurance contracts, is recognized initially at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the best estimate of the amount required to settle the guarantee at the reporting date.

2. Summary of significant accounting policies (continued)

2.24. Employee benefits

The Bank has defined benefit plans as described below:

A defined benefit plan is a post-employment benefit plan that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. For defined benefit plans, the liability is the present value of the defined benefit obligation as at the reporting date minus the fair value of the plan assets (if any), including any adjustments for unrecognized actuarial gains/losses and past service cost.

In accordance with existing Turkish Labor Law, the Bank is required to make lump-sum severance indemnities to each employee who has completed over one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The Bank has reflected the retirement pay liability amount, which was calculated by an independent actuary, using the projected unit credit method in the accompanying financial statements.

Remeasurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Bank recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest expense and service costs related to the defined benefit plans are recognized in personnel expenses in the statement of profit or loss.

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

Defined contribution plans - The Bank has to pay contributions to the Social Security Institution on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. These contributions are recognized as an employee benefit expense when they are accrued.

2.25. Income taxes

Tax charge (benefit) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

a. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

b. Deferred tax

Deferred tax is fully provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences.

2. Summary of significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items which are recognized in other comprehensive income is also recognized in other comprehensive income. Such deferred tax is subsequently recognized in the statement of profit or loss together with the deferred gain or loss.

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

2.26. Interest bearing deposits and borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. Interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

2.27. Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

2.28. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Board of Directors as its chief operating decision makers.

All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

2.29. Related party transactions

Related parties include entities, which the Bank has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, close members of their families, companies owned or controlled by them and companies over which they can influence the financial and operating policies.

2. Summary of significant accounting policies (continued)

2.30. Fiduciary and trust activities

The Bank provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not recognized in the financial statements, since such items are not as assets of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

2.31. Earnings per share

The basic earnings per share (EPS) ratio is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share ratio is computed using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if convertible debt securities, options, warrants or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

3. Critical judgements and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the financial statements. The Bank believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate given the factual circumstances as of December 31, 2015.

The most significant areas, for which judgments, estimates and assumptions are required in applying the Bank's accounting policies, are the following:

Allowances for loans and advances to customers and finance lease

The amount of the allowance for impairment of loans and advances to customers is based upon management's ongoing assessments of the probable estimated losses inherent in the loan portfolio. Assessments are conducted by members of management responsible for various types of loans employing a methodology and guidelines, which are continually monitored and improved.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are and to determine the required input parameters, based on historical experience and current economic conditions.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

3. Critical judgements and estimates (continued)

From the beginning of January 1, 2016, the Bank has made a change in estimation of collective provisions of loans to customers portfolio as a result of the latest available reliable information. Primarily, assumptions used in probability of default and loss given default calculations have been revised with new rating and hair-cut assumptions. As a result of the change in estimate collective provision carried in accompanying financial statements are TL 1,500. If the previous methodology had been applied, loans to customers and provision for loans to customers would be TL 400,060 and TL 3,810, respectively.

The amount of the allowance for impairment of loans and advances to customers are described in Note 10 and 23.

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include present value methods and other models based mainly on observable input parameters and to a small extent to non-observable input parameters.

All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed thereafter, by qualified personnel independent of the area that created the model.

The Bank applies the models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. Management therefore establishes valuation adjustments to cover the risk associated with the estimation of unobservable input parameters and the assumptions within the models themselves.

Although a significant degree of judgment is, in some cases, required in establishing fair values, management believes the fair values recorded in the statement of financial position and the changes in fair value recorded in the statement of profit or loss are prudent and reflective of the underlying economics, based on the controls and procedural safeguards employed. .

4. Reclassifications

In order to comply with 31 December 2016 financial statements, below reclassifications have been adjusted to 31 December 2015financial statements.

	Previously Reported, December 31, 2015	**Reclassifications**	**December 31, 2015**
Amounts due to customers	-	59	59
Amounts due to bank and money market deposits	-	10,213	10,213
Provisions	308	(308)	-
Other liabilities	15,710	(9,964)	5,746

5. Financial risk management

Introduction and overview

The Bank's risk approach is to achieve sound and sustainable low risk profile on basis, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, market risk, liquidity risk, currency risk and operational risk. The Bank's risk policy can be summarised as:

- eliminating currency, interest rate and maturity risk
- minimizing market risk
- well managing the credit risk through a high standardised credit risk management

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate its currency, interest rate and maturity positions that might create liquidity or market risk to Bank. Additionally, in order to minimize the market risk, marketable securities portfolio is limited proportional to the total assets.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the policy of the Bank, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.)
- to manage, and guide all the activities of Internal Systems
- to approve new business lines, products or activities that would have a substantial effect on activities of the Bank

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate). In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities. According to the Bank's "Risk Management Policy", Financial Risks are composed of Market, Credit and Liquidity risks. Risk Management Policy includes details about the framework for defining, measuring, monitoring and managing the risks taken by the business units across the bank. Risk Management Policy covers sound and optimum capital allocation quantification of the actual risks establishment of dynamic risk limit.

The Bank determines risk-based limits, with respect to available economic capital and monitors actual risks against these limits. All risks (market, credit or liquidity), arising from any type financial instrument are subject to aforementioned risk based limits.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

Credit risk

The Bank, for the loans to be granted to a single borrower or Bank to be applied in risk limits are based on the regulations of the Banking Law. In order to avoid sectorial concentration, limits have been defined and adherence to limits is monitored on a transaction basis.

Daily loan and securities transactions, adherence to limits and concentration is monitored and reported by the risk management unit. In addition, the value of securities are monitored and credit risk compliance with the limits of the operations, marketing and internal control units are monitored by transaction basis.

Loans and other receivables are subjected to re-evaluation at least once a year by the credit allocation unit, borrower and transaction rating models are used for this purpose.

Lending activities, including the documents received from business units independently of the internal control unit is subject to detective control.

The Bank does not have positions of forward, option and similar agreements.

When considered within the financial activities of other financial institutions, the Bank as an active participant in the national and international banking market is not exposed to a significant credit risk. With an increase in credit risk amount, use of mentioned derivative products can come up.

The Bank doesn't have any reimbursed non-cash loans, if any are present, they will be weighted in the same risk weight as loans that are overdue.

The Bank has no rescheduled or restructured loans. If any, it is planned to be followed by monthly reports of risk management unit.

Separation of credit risk is performed with debtor rating system and transaction rating system. Maturity based risk separation is not performed.

Cash and non-cash loans are put in the same category with the loans that have not been paid at maturity. They are being classified based on collaterals taken and transferred to legal follow-up accounts.

When considered within the financial activities of other financial institutions, the Bank as an active participant in the national and international banking market is not exposed to a significant credit risk.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements, without taking account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

	31 December 2016	31 December 2015
Central Bank of Turkish Republic	14,827	880
Due from banks and money market receivables	44,277	47,357
Reserve requirements at Central Bank	19,579	11,772
Investment securities available-for-sale	20,538	9,619
Loans to customers	403,870	245,744
Other assets	4,208	4,285
Total	**507,299**	**319,657**
Financial guarantees and lending commitments	197,910	126,995
Other commitments	11	2,034
Total	**197,921**	**129,029**
Total credit risk exposure	**705,220**	**448,686**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

The Bank has formed internal scoring and rating system, based on statistical methods to monitor the credibility of its clients. This system classify the customers according to their default risk from highest to lowest score or rating. Internal scoring systems are used to improve the efficiency of the loan granting process, to monitor loan portfolio quality effectively and to assist in the determination of the actions required.

The table below shows the credit quality by class of assets. Facility rating between AAA-BBB loans classifies as High Grade, BB-B facility rating loans are classified as Standard:

31 December 2016	Neither past due nor impaired				
	High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired
Cash and cash equivalents (excluding cash on hand)	6,595	52,509		-	-
Reserve requirements at Central Bank	-	19,579		-	-
Investment securities available-for-sale	-	13,864	6,674	-	-
Loans to customers - corporate lending	151,905	251,965	-	-	-
Total	**158,500**	**337,917**	**6,674**	-	-

The table below shows the loans according to industry segmentation:

	31 December 2016	**31 December 2015**
Trade and services	30,929	-
Manufacturing	17,938	39,173
Construction	51,857	18,595
Non-banking credit organizations	205,808	118,202
Real estate and & Rental services	10,242	7,839
Energy	7,633	-
Other	79,463	61,935
Total loans to customers, gross	**403,870**	**245,744**
Impairment allowance	(1,500)	(2,130)
Total loans to customers, net	**402,370**	**243,614**

The table below shows the geographical concentration of monetary assets and liabilities of the Bank:

31 December 2016	**Turkey**	**OECD Countries**	**Azerbaijan**	**Georgia**	**Other**	**Total**
Financial assets						
Cash and cash equivalents (excluding cash on hand)	47,505	6,595	-	-	5,004	59,104
Reserve requirements at Central Bank	19,579	-	-	-	-	19,579
Derivative financial assets	281	-	-	-	-	281
Investment securities available-for-sale	13,864	-	-	6,674	-	20,538
Loans to customers, gross	350,734	53,136	-	-	-	403,870
	431,963	**59,731**	-	**6,674**	**5,004**	**503,372**
Financial liabilities						
Amounts due to customers	3,536	-	-	-	-	3,536
Amounts due to banks and money market deposits	15,963	-	381	-	-	16,344
Funds borrowed	53,624	-	131,613	6,660	-	191,897
Derivative financial liabilities	1,603	-	-	-	-	1,603
Debt securities issued	37,239	-	-	-	-	37,239
	111,965	-	**131,994**	**6,660**	-	**250,619**
Net assets/(liabilities)	**319,998**	**59,731**	**(131,994)**	**14**	**5,004**	**252,753**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

31 December 2015	Turkey	OECD Countries	Azerbaijan	Georgia	Other	Total
Financial assets						
Cash and cash equivalents (excluding cash on hand)	24,901	11,095	10,234		2,007	48,237
Reserve requirements at Central Bank	11,772	-	-	-	-	11,772
Derivative financial assets	604	-	-	-	-	604
Investment securities available-for-sale	9,619	-	-	-	-	9,619
Loans to customers, gross	245,744	-	-	-	-	245,744
	292,640	**11,095**	**10,234**	-	**2,007**	**315,976**
Financial liabilities						
Amounts due to customers	59	-	-	-	-	59
Amounts due to banks and money market deposits	-	-	10,213	-	-	10,213
Funds borrowed	1,751	-	69,560	-	-	71,311
Derivative financial liabilities	48	-	-	-	-	48
Debt securities issued	-	-	-	-	-	-
	1,858	-	**79,773**	-	-	**81,631**
Net assets/(liabilities)	**290,782**	**11,095**	**(69,539)**	-	**2,007**	**234,345**

Liquidity risk

Liquidity risk is the risk occurring as a result of non-availability of sufficient cash on hand or cash inflow to meet cash outflows in a timely manner completely as a result of imbalance in cash flows. Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

The Bank forms its assets and liabilities in balance not to create a negative gap on cumulative basis in maturity segments.

In accordance with the "Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks" entered into force after published on Official Gazette dated November 1, 2006 and numbered 26333 by BRSA, weekly simple average of total liquidity adequacy rates related to primary maturity segment and total liquidity adequacy rate related to secondary maturity segment cannot be less than 100% while weekly simple average of foreign currency liquidity ratio related to primary maturity segment and foreign currency adequacy rate related to secondary maturity segment cannot be less than 80%.

Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

Financial planning and control department is legally responsible for measuring and reporting of liquidity risk. Stress test applied to liquidity position and calculation of liquidity coverage rate is performed by Liquidity Management Department.

Risk Management Department monitors related unit's activities and reports to the Senior Management monthly.

The main funding sources of the Bank are provided by domestic and foreign banks and repo transactions and Money market transactions and diversification of aforementioned sources are made in order to minimize liquidity risk. Financial Institutions Department carries out studies which are required to relate supplying of long term foreign source.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

TL liquidity of the Bank is managed through funds provided from domestic and foreign banks via repo transactions made in BIST using high quality (premium) securities.

TL and foreign currency cash flow of the Bank in scope of Balance sheet management is monitored separately. Risk Management Unit reports to ALCO weekly and Board of Directors on a monthly basis.

Liquidity limits are determined in order to keep the risk regarding liquidity risk in defined limits and to monitor liquidity position. The aforementioned limits have been determined in accordance with "Regulation on Measurement and Evaluation of Bank's Liquidity Adequacy" in Risk Limits document and approved by Board of Directors.

At least one of the following liquidity stress tests related to issues mentioned below is applied monthly and result of the related test is reported to Board of Directors by Risk Management Unit.

- Negative influence of economic crisis occurring in domestic finance markets on the liquidity of the bank.
- Negative influence of global crisis on the liquidity of the Bank.
- Negative influence of a problem occurred within the Bank (abuse, fraud, reputation risk etc.).

Threshold of weekly and monthly liquidity rate for stress tests which shall be applied for above mentioned scenarios is taken into consideration as 80% for foreign currency assets/liabilities and as 100% for total assets/liabilities.

"Emergency and unexpected situation plan for Liquidity" is approved by the Board of Directors and established in order to manage possible liquidity crisis and required actions for losses which can occur in extraordinary conditions are determined with preventing mechanisms and liquidity squeeze scenarios. The scope of the aforementioned plan is to pre-determine applicable scenarios, measurement of liquidity risk and the actions which shall be taken towards those risks.
Liquidity ratios realized in the current period:

The below tables are prepared in accordance with BRSA regulations representing the ratio of liquid assets to liabilities within certain time intervals for the last quarter of reporting periods.

	First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)	
	FC	FC +TL	FC	FC +TL
31 December 2016				
Average (%)	221	377	116	383
Maximum (%)	327	556	167	587
Minimum (%)	144	195	87	279

	First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)	
	FC	FC +TL	FC	FC +TL
31 December 2015				
Average (%)	4,008	3,178	2,157	2,748
Maximum (%)	22,221	24,685	54,473	41,234
Minimum (%)	120	390	82	382

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

The table below analyses carrying amount of assets and liabilities of the Bank into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date.

	Demand	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Unclassified	Total
31 December 2016								
Assets								
Cash and cash equivalents	21,471	22,530	15,133	-	-	-	-	59,134
Reserve requirements at Central Bank	-	19,579	-	-	-	-	-	19,579
Derivative financial assets	-	-	281	-	-	-	-	281
Investment securities available-for-sale	-	3,724	6,105	4,035	6,674	-	-	20,538
Loans to customers	-	118,886	47,486	172,287	65,211	-	(1,500)	402,370
Property and equipment	-	-	-	-	-	-	681	681
Intangible assets	-	-	-	-	-	-	981	981
Deferred tax assets	-	-	-	-	-	-	989	989
Other assets	-	4,078	-	-	-	-	526	4,604
Total Assets	**21,471**	**168,797**	**69,005**	**176,322**	**71,885**	**-**	**1,677**	**509,157**
Liabilities								
Amounts due to customers	3,036	500	-	-	-	-	-	3,536
Amounts due to banks and money market deposits	381	15,963	-	-	-	-	-	16,344
Funds borrowed	-	44,281	9,171	138,445	-	-	-	191,897
Employee benefits	-	-	-	-	-	-	1,702	1,702
Derivative financial liabilities	-	-	1,603	-	-	-	-	1,603
Debt securities issued	-	37,239	-	-	-	-	-	37,239
Current income tax liabilities	-	2,079	-	-	-	-	-	2,079
Other liabilities (*)	-	3,388	1,503	-	-	-	249,866	254,757
Total Liabilities	**3,417**	**103,450**	**12,277**	**138,445**	**-**	**-**	**251,568**	**509,157**
Net Liquidity Gap	**18,054**	**65,347**	**56,728**	**37,877**	**71,885**	**-**	**(249,891)**	**-**
31 December 2015						-		
Total Assets	22,233	100,451	56,041	82,575	13,192	43,670	2,539	320,701
Total Liabilities	10,272	14,434	-	21,086	41,100	-	233,809	320,701
Net Liquidity Gap	**11,961**	**86,017**	**56,041**	**61,489**	**(27,908)**	**43,670**	**(231,270)**	**-**

The table below shows the expected maturities of commitments and contingencies at the balance sheet date.

	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Maturity Undefined	Total
31 December 2016	176	2,006	78,820	-	26,044	90,875	197,921
31 December 2015	5,797	159	14,715	4,404	22,350	81,604	129,029

The table below shows nominal amounts of the remaining contractual maturities of derivative financial instruments at the balance sheet date.

31 December 2016	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Total
Currency forward agreements – purchase	-	13,689	-	-	-	13,689
Currency forward agreements – sell	-	(14,024)				(14,024)
Currency swap agreements – purchase	-	10,419	-	-	-	10,419
Currency swap agreements – sell	-	(11,130)	-	-	-	(11,130)
Net	**-**	**(1,046)**	**-**	**-**	**-**	**(1,046)**
31 December 2015						
Currency forward agreements – purchase	-	3,835	-	-	-	3,835
Currency forward agreements – sell	-	(3,794)	-	-	-	(3,794)
Currency swap agreements – purchase	40,559	-	-	-	-	40,559
Currency swap agreements – sell	(39,940)	-	-	-	-	(39,940)
Net	**619**	**41**	**-**	**-**	**-**	**660**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

The table below shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis.

31 December 2016	Carrying amount	Gross nominal outflow	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over
Amounts due to customers	3,536	3,536	3,536	-	-	-	-
Amounts due to banks and money market deposits	16,344	16,349	16,349	-	-	-	-
Funds borrowed	191,897	196,691	44,302	9,208	143,181	-	-
Derivative financial liabilities	1,603	1,603	-	1,603	-	-	-
Debt securities issued	37,239	37,500	37,500	-	-	-	
Total	**250,619**	**255,679**	**101,687**	**10,811**	**143,181**	**-**	**-**

31 December 2015	Carrying amount	Gross nominal outflow	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over
Amounts due to customers	59	59	59	-	-	-	-
Amounts due to banks and money market deposits	10,213	10,213	10,213	-	-	-	-
Funds borrowed	71,311	74,348	9,107	-	21,401	43,840	-
Derivative financial liabilities	48	48	48	-	-	-	-
Total	**81,631**	**84,668**	**19,427**	**-**	**21,401**	**43,840**	**-**

Interest rate sensitivity risk

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured legally in accordance with the "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts", and this legal limit is monitored and reported monthly, based on this measurement.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

Interest rate sensitivity of financial assets and liabilities based on repricing dates is as follows:

31 December 2016	Non-interest bearing	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Total
Financial Assets							
Cash and cash equivalents	21,471	22,530	15,133	-	-	-	59,134
Reserve requirements at Central Bank	-	19,579	-	-	-	-	19,579
Derivative financial assets	-	-	281	-	-	-	281
Investment securities available-for-sale	-	3,724	12,779	4,035	-	-	20,538
Loans to customers	(1,500)	178,777	86,269	128,751	10,073	-	402,370
Other financial assets	4,078	-	-	-	-	-	4,078
Total	**24,049**	**224,610**	**114,462**	**132,786**	**10,073**	**-**	**505,980**
Financial Liabilities							
Amounts due to customers	3,036	500	-	-	-	-	3,536
Amounts due to banks and money market deposits	381	15,963	-	-	-	-	16,344
Funds borrowed	-	44,281	9,171	138,445	-	-	191,897
Derivative financial liabilities	-	-	1,603	-	-	-	1,603
Debt securities issued	-	37,239	-	-	-	-	37,239
Other financial liabilities	5,531	-	-	-	-	-	5,531
Total	**8,948**	**97,983**	**10,774**	**138,445**	**-**	**-**	**256,150**
Net interest sensitivity gap	**15,101**	**126,627**	**103,688**	**(5,659)**	**10,073**	**-**	**249,830**

31 December 2015	Non-interest bearing	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Total
Financial Assets							
Cash and cash equivalents	22,227	26,021	-	-	-	-	48,248
Reserve requirements at Central Bank	-	11,772	-	-	-	-	11,772
Derivative financial assets	-	-	604	-	-	-	604
Investment securities available-for-sale	-	256	-	9,363	-	-	9,619
Loans to customers	(2,130)	105,683	85,540	52,357	2,164	-	243,614
Other financial assets	4,224	-	-	-	-	-	4,224
Total	**24,321**	**143,732**	**86,144**	**61,720**	**2,164**	**-**	**318,081**
Financial Liabilities							
Amounts due to customers	59	-	-	-	-	-	59
Amounts due to banks and money market deposits	10,213	-	-	-	-	-	10,213
Funds borrowed	-	9,125	-	21,086	41,100	-	71,311
Derivative financial liabilities	-	38	10	-	-	-	48
Other financial liabilities	4,224	-	-	-	-	-	4,224
Total	**14,496**	**9,163**	**10**	**21,086**	**41,100**	**-**	**85,855**
Net interest sensitivity gap	**9,825**	**134,569**	**86,134**	**40,634**	**(38,936)**	**-**	**232,226**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

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

	EUR (%)	USD (%)	TL (%)
31 December 2016			
Balances with Central Bank	-	0.75	5.30
Cash and cash equivalents	0.10	1.49	9.55
Loans and advances to customers	3.84	4.92	13.65
Available-for sale financial assets	-	-	10.20
Funds borrowed	1.79	3.02	11.01
Debt securities issued	-	-	11.73

	EUR (%)	USD (%)	TL (%)
31 December 2015			
Balances with Central Bank	-	0.90	5.00
Cash and cash equivalents	-	0.99	10.60
Loans and advances to customers	4.80	4.82	12.28
Available-for sale financial assets	-	-	8.80
Funds borrowed	2.00	3.25	10.75
Other money market deposits	-	-	9.79

The table below shows the economic value differences resulted from interest rate instabilities calculated according to regulation on measurement and evaluation of interest rate risk resulted from banking book as per standard shock method according to BRSA regulations:

31 December 2016 **Type of Currency**	**Shocks Applied (+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity (*)**
1. TRY	(+) 500 bps	(3,093)	(1.25%)
2. TRY	(-) 400 bps	2,676	1.08%
3. USD	(+) 200 bps	965	0.39%
4. USD	(-) 200 bps	(628)	(0.25%)
5. EURO	(+) 200 bps	(925)	(0.37%)
6. EURO	(-) 200 bps	(185)	(0.07%)
Total (For negative shocks)		**1,863**	**0.76%**
Total (For positive shocks)		**(3,053)**	**(1.23%)**

31 December 2015 **Type of Currency**	**Shocks Applied (+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity (*)**
1. TRY	(+) 500 bps	(1,974)	(0.85%)
2. TRY	(-) 400 bps	1,687	0.73%
3. USD	(+) 200 bps	1,313	0.56%
4. USD	(-) 200 bps	(946)	(0.41%)
5. EURO	(+) 200 bps	67	0.03%
6. EURO	(-) 200 bps	(1)	0,00%
Total (For negative shocks)		**740**	**0.32%**
Total (For positive shocks)		**(594)**	**(0.26%)**

(*) The equity represents the statutory equity of the Bank subject to capital adequacy calculations prepared in accordance with BRSA regulations.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

Currency risk

The Bank's foreign currency position is managed within the limits set by legislation and the Bank. The basic principle in foreign currency risk management is not to be exposed to currency risk. Accordingly, the exchange-trading risk positions are not allocated to the limit, banking accounts as of the currency by creating a matched asset-liability structure is aimed to provide natural protection. The Bank uses derivative financial instruments such as forward foreign exchange contracts and currency swaps for hedging purposes in foreign currency denominated transactions. Bank's methodology of digitising the foreign currency position includes the use of standard method when calculating the capital adequacy ratio and application of internal stress tests/ sensitivity analysis.

The Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five business days prior to that date:

	USD	EURO
Bid Rate	3.5192	3.7099
1. Bid rate	3.5318	3.6939
2. Bid rate	3.5329	3.6901
3. Bid rate	3.5135	3.6711
4. Bid rate	3.5041	3.6639
5. Bid rate	3.5077	3.6647

As at 31 December 2015, the Bank's USD bid rate is 2.9181 and EUR bid rate is 3.1838.

The simple arithmetic average of the Bank's foreign exchange bid rates for the last thirty days preceding the balance sheet date:

	USD	EURO
31 December 2016	3.4935	3.6840
31 December 2015	2.9177	3.1770

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

The following table shows the foreign currency net general position of the bank on the basis of foreign currencies.

31 December 2016	TL	EUR	USD	AZN	Other	Total
Assets						
Cash and cash equivalents	48,965	5,919	4,248	2	-	59,134
Reserve requirements at Central Bank	-	4,452	15,127	-	-	19,579
Derivative financial assets	281	-	-	-	-	281
Investment securities available-for-sale	13,864	-	-	-	6,674	20,538
Loans to customers	264,800	53,117	84,453	-	-	402,370
Other financial assets	4,078	-	-	-	-	4,078
Total Financial Assets	**331,988**	**63,488**	**103,828**	**2**	**6,674**	**505,980**
Liabilities						
Amounts due to customers	3,524	4	8	-	-	3,536
Amounts due to banks and money market deposits	16,341	-	3	-	-	16,344
Funds borrowed	46,374	48,444	90,419	-	6,660	191,897
Derivative financial liabilities	1,603	-	-	-	-	1,603
Debt securities issued	37,239	-	-	-	-	37,239
Other financial liabilities	4,106	-	1,425	-	-	5,531
Total Financial Liabilities	**109,187**	**48,448**	**91,855**	-	**6,660**	**256,150**
Net balance sheet gap	**222,801**	**15,040**	**11,973**	**2**	**14**	**249,830**
Net off-balance sheet gap	17,313	(14,840)	(3,519)	-	-	(1,046)
Financial Derivative Assets	20,589	-	3,519	-	-	24,108
Financial Derivative Liabilities	3,276	14,840	7,038	-	-	25,154
Non-cash loans	**130,451**	**27,170**	**38,576**	-	**1,713**	**197,910**
31 December 2015						
Total Financial Assets	**203,474**	**15,055**	**89,318**	**10,234**	-	**318,081**
Total Financial Liabilities	**4,321**	**6,408**	**75,126**	-	-	**85,855**
Net balance sheet gap	**199,153**	**8,647**	**14,192**	**10,234**	-	**232,226**
Net off-balance sheet gap	**27,482**	**(8,438)**	**(18,384)**	-	-	**660**
Financial Derivative Assets	35,957	8,437	-	-	-	44,394
Financial Derivative Liabilities	8,475	16,875	18,384	-	-	43,734
Non-cash loans	**59,665**	**24,101**	**41,563**	-	**1,666**	**126,995**

The possible increases or decreases in the shareholders' equity and the profit/loss as per an assumption of devaluation and appreciation by 10% of TL against currencies mentioned below as of 31 December 2016 and 2015 are presented in the below table. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

Assuming 10% depreciation of TL:

	31 December 2016		**31 December 2015**	
	Income statement	Shareholders' equity (*)	Income statement	Shareholders' equity (*)
USD	848	848	(411)	(411)
EUR	20	20	21	21
AZN	-	-	1,014	1,014
Total	**868**	**868**	**624**	**624**

(*) The effect on shareholders' equity also includes profit/loss effect.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

Fair values of financial assets and liabilities

Financial instruments not measured at fair value:

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the statement of financial position at fair value.

	Carrying amount		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial assets				
Cash and cash equivalents	59,134	48,248	59,134	48,248
Reserve requirements at Central Bank	19,579	11,772	19,579	11,772
Loans to customers	402,370	243,614	400,929	242,691
Financial liabilities				
Amounts due to customers	3,536	59	3,536	59
Amounts due to banks and money market deposits	16,344	10,213	16,344	10,213
Funds borrowed	191,897	71,311	191,672	71,311
Debt securities issued	37,239	-	37,209	-

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

The fair value of loans and receivables are determined by calculating the discounted cash flows using the current market interest rates for the fixed loans with fixed interest rates. For the loans with floating interest rates, it is assumed that the carrying value reflects the fair value.

The fair values of debt securities issued are determined based on market prices or when this price is not available, using a discounted cash flow analysis based on current market rates of similar maturity debt securities.

The fair value of funds borrowed are determined by using discounted cash flows based on the current Bank's borrowing interest rates for similar types of borrowing arrangements.

The fair value of remaining financial assets and liabilities such as cash and cash equivalents, amounts due from credit institutions, amounts due to banks and money market deposits and amounts due to customers are estimated to be same with carrying amount due to their short term maturity profile and non-interest earning/bearing characteristics.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

Financial instruments measured at fair value:

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or,
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

31 December 2016	Level 1	Level 2	Level 3	Total
Financial Assets				
Investment securities available-for-sale	13,864	-	6,674	20,538
Derivative financial assets	-	281	-	281
Total	13,864	281	6,674	20,819
Financial Liabilities				
Derivative financial liabilities	-	1,603	-	1,603

31 December 2015	Level 1	Level 2	Level 3	Total
Financial Assets				
Investment securities available-for-sale	9,619	-	-	9,619
Derivative financial assets	-	604	-	604
Total	9,619	604	-	10,223
Financial Liabilities				
Derivative financial liabilities	-	48	-	48

Level 3 financial assets include corporate bonds with floating rates, which are valued using discounted cash flow techniques based on current rates available for debt instruments with similar terms and credit risk characteristics. The level 3 financial assets are purchased in year 2016, and there are no instruments transferred between the levels.

The table below summarizes the fair value hierarchy of inputs used in fair value disclosure of the instruments that are not carried at fair value:

31 December 2016	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	59,134	59,134	-	-	59,134
Reserve requirements at Central Bank	19,579	19,579	-	-	19,579
Loans to customers	402,370	-	-	400,929	400,929
Financial Liabilities					
Amounts due to customers	3,536	-	-	3,536	3,536
Amounts due to banks and money market deposits	16,344	-	-	16,344	16,344
Funds borrowed	191,897	-	-	191,672	191,672
Debt securities issued	37,239	-	-	37,209	37,209

31 December 2015	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	48,248	48,248	-	-	48,248
Reserve requirements at Central Bank	11,772	11,772	-	-	11,772
Loans to customers	243,614	-	-	242,691	242,691
Financial Liabilities					
Amounts due to customers	59	-	-	59	59
Amounts due to banks and money market deposits	10,213	-	-	10,213	10,213
Funds borrowed	71,311	-	-	71,311	71,311

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

Market risk

Market risk is followed under two headings: market risk arising from trading activities and market risk arising from banking transactions. The basic principle of market risk management is creating a compliant asset / liability structure and providing protection by averting differences with derivative instruments when necessary.

Management of market risk

By the Board of Directors, market risk limits introduced by the minimization of the risks involved were targeted. Defined risk limits are reviewed by the Board of the Directors in 3 month period and updated if necessary. "Standard method" is used in the measurement of market risk in the extent of capital adequacy ratio. Value of the securities portfolio at risk is monitored and is reported to senior management on a monthly basis.

Exposure to market risk - trading portfolios

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

The below table represents the details of the market risk calculation in accordance with the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", section three "Calculation of Market Risk with Standard Method" published by BRSA.

2016	Interest rate risk	Currency risk	Total Market Risk
As at 31 Dec 2016	89	719	808
Average	60	706	766
Maximum	123	1,345	1,468
Minimum	-	-	47

2015	Interest rate risk	Currency risk	Total Market Risk (*)
As at 31 Dec 2015	31	836	867
Average	21	116	144
Maximum	74	836	867
Minimum	-	-	-

(*) In 2015, total market risk includes counterparty risk amount.

Counterparty risk

The Bank faces counterparty risk from the over-the-counter transactions and repurchase agreements in which it involves. Counterparty risk strategy has been defined according to counterparty's nature and product category. Counterparties may be sovereigns, banks, corporate and commercial customers. Products are grouped as derivative contracts such as currency forwards-futures-swaps, interest swaps and repurchase transactions.

Previous to the transactions regarding counterparty risk, the counterparty risk is analysed and subsequently the counterparty's credit risk is monitored periodically. In case the frequency of monitoring may be increased.

Except for the banks, the approvals related to loan granting are applied for the corporate counterparties. In case of worsened market conditions and credibility concerns of parties, limits may be re-evalued and revised. If needed approved limits may be blocked.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Financial risk management (continued)

Capital adequacy

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published on 6 September 2014 and Official Gazette numbered 29111 and "Communiqué on Equities of Banks" published on 5 September 2013 in the Official Gazette numbered 28756. The Bank's capital adequacy ratio is % 53.85 (31 December 2015: % 91.75) in accordance with the related Communiqué as of 31 December 2016. The Bank has complied with the capital requirements throughout the year and previous year.

	31 December 2016	31 December 2015
Capital requirement for Credit Risk (CRCR)	34,411	19,049
Capital requirement for Market Risk (CRMR)	804	867
Capital requirement for Operational Risk (CROR)	1,643	355
Total capital requirement	**36,858**	**20,271**
Total risk weighted assets (total capital requirement*12.5)	**460,716**	**253,388**
Tier 1 capital	243,610	229,810
Tier 2 capital	4,471	2,670
Deductions from capital (-)	-	-
Total capital	**248,081**	**232,480**
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	53.85	91.75
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	52.88	90.70
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*10	52.96	90.76

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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Segment Reporting

Information on operational segments on 31 December 2016 and 2015 are as follows:

31 December 2016

	Corporate banking	Treasury and asset liability management	Total
Total asset	402,370	106,787	509,157
Total liabilities	3,917	257,311	261,228
Net interest income	33,683	(3,171)	30,512
Net fee and commission income	1,130	-	1,130
Other operating segments gain	630	4,883	5,513
Other operating expenses (-)	-	(16,612)	(16,612)
Profit before tax	**35,443**	**(14,900)**	**20,543**
Tax income	-	(4,233)	(4,233)
Net profit	**35,443**	**(19,133)**	**16,310**

31 December 2015

	Corporate banking	Treasury and asset liability management	Total
Total asset	243,434	77,267	320,701
Total liabilities	38,852	50,331	89,183
Net interest income	17,647	7,373	25,020
Net fee and commission income	304	-	304
Other operating segments gain	-	1,242	1,242
Other operating expenses (-)	(1,182)	(13,383)	(14,565)
Profit before tax	**16,769**	**(4,768)**	**12,001**
Tax income	-	(2,271)	(2,271)
Net profit	**16,769**	**(7,039)**	**9,730**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2016	31 December 2015
Cash on hand	30	11
Current accounts with the Central Bank	14,827	880
Money market receivables	15,133	-
Demand Deposits	6,614	21,342
Time deposits up to 90 days	22,530	26,015
Total cash and cash equivalents	**59,134**	**48,248**

As at 31 December 2016, the interest rate for placements with other credit institutions is 10.5% and the interest rates for time deposits vary between 8.5% - 10.0% for TL balances and 0.7% for USD balances.

For the purposes of the preparation of statement of cash flows, "Cash" includes cash, effectives, and cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and "Cash equivalents" include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

8. Reserve requirements at Central Bank

Amounts due from Central Bank of Turkey held as reserve requirements:

	31 December 2016	31 December 2015
Reserve requirements with the CBT	19,579	11,772
Total	**19,579**	**11,772**

According to CBRT's "Required Reserves Announcement" numbered 2005/1, for Turkish currency and foreign currency denominated liabilities, reserve requirement amounts held in CBRT have been included in the above table. The reserve rates for TL liabilities vary between 4% and 10.5% for TL deposits and other liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 11.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4.5% and 24.5% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 25% for all foreign currency liabilities).

9. Investment securities available-for-sale

Investment securities available-for-sale comprise:

	31 December 2016		31 December 15	
	Carrying value	Nominal value	Carrying value	Nominal value
Turkish Government Bonds	6,196	6,100	9,619	9,500
Financial Institution Bonds	7,668	7,743	-	-
Corporate Bonds	6,674	6,627	-	-
Investment securities available-for-sale	**20,538**	**20,470**	**9,619**	**9,500**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

9. Investment securities available-for-sale (continued)

The interest rates per annum and maturities of these securities are as follows:

	31 December 2016		31 December 15	
	%	Maturity	%	Maturity
Turkish Government Bonds	9.26%-10.64%	Mar 2017 - Jun 2017	6.93%-8.29%	Jun 2016-Nov 2016
Financial Institution Bonds	11.00%-11.84%	Jan 2017 – Feb 2017	-	-
Corporate Bonds	10.38	Dec 2021	-	-

The movement of investment securities available-for-sale is as follows:

	2016	2015
Balance at January 1,	9,619	1,764
Additions	29,060	11,663
Disposals	(18,199)	(3,834)
Gains/losses from changes in fair value	253	26
Foreign exchange differences	(195)	-
Balance at December 31,	**20,538**	**9,619**

The investment securities available-for-sale subject to repo transactions amount to TL 4,803 as at 31 December 2016 (31 December 2015 – None). Securities given as collateral amount to TL 1,029 (31 December 2015 – TL 1,026).

10. Loans to customers

The loans are fully granted to corporate customers. There are consumer loans or credit card balances.
Loans to customers comprise:

	31 December 2016	31 December 2015
Neither past due nor impaired		
- Loans to financial institutions	205,808	118,202
- Corporate loans	198,062	127,542
Past due not impaired	-	-
Impaired individually	-	-
Loans to customers (gross)	**403,870**	**245,744**
- Individual impairment (-)	-	-
- Collective impairment (-)	(1,500)	(2,130)
Loans and advances to customers, net	**402,370**	**243,614**

Movement in allowance for impairment on loans to customers is as follows:

	2016	2015
Balance at January 1,	(2,130)	(468)
Current year (additions)/reversals	630	(1,662)
Balance at December 31,	(1,500)	(2,130)

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

11. Other assets and liabilities

Other assets comprise:

	31 December 2016	31 December 2015
Other financial assets		
Clearance cheque accounts (*)	4,078	4,224
	4,078	**4,224**
Other non-financial assets		
Prepayments and receivables	396	453
Collaterals given	119	49
Other non-financial assets	11	93
	526	**595**
Total other assets	**4,604**	**4,819**

Other liabilities comprise:

	31 December 2016	31 December 2015
Other financial liabilities		
Cash collaterals obtained	1,453	-
Clearance cheque accounts (*)	4,078	4,224
	5,531	**4,224**
Other non-financial liabilities		
Miscellaneous payables	120	100
Provisions for Lawsuit	262	308
Accrued operating expenses	279	401
Deferred income on fee & commissions	602	659
Other non-financial liabilities	34	54
	1,297	**1,522**
Total other liabilities	**6,828**	**5,746**

(*) Amount consists of collateral cheques received from customers and submitted to settlement and custody bank and due as of 31 December 2016 and 31 December 2015.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

12. Property and Equipment

Movement of property and equipment is as follows:

		Furniture and fixtures	*Computers and other equipment*	*Other equipment*	*Leasehold improve-ments*	*Total*
Cost						
	31-Dec-14	**49**	**682**	**71**	**-**	**802**
Additions		18	287	-	29	**334**
Disposals		-	(3)	-	-	**(3)**
	31-Dec-15	**67**	**966**	**71**	**29**	**1,133**
Additions		145	171	-	48	**364**
Disposals		-	(145)	-	-	**(145)**
	31-Dec-16	**212**	**992**	**71**	**77**	**1,352**
Accumulated depreciation						
	31-Dec-14	**(48)**	**(391)**	**(71)**	**-**	**(510)**
Depreciation charge		(1)	(114)	-	(4)	**(119)**
Disposals		-	-	-	-	**-**
	31-Dec-15	**(49)**	**(505)**	**(71)**	**(4)**	**(629)**
Depreciation charge		(2)	(178)	-	(7)	**(187)**
Disposals		-	145	-	-	**145**
	31-Dec-16	**(51)**	**(538)**	**(71)**	**(11)**	**(671)**
Net book value						
	31-Dec-16	**161**	**454**	**-**	**66**	**681**
	31-Dec-15	**18**	**461**	**-**	**25**	**504**
	31-Dec-14	**1**	**291**	**-**	**-**	**292**

13. Intangible Assets

Intangible assets comprise software purchased and related licenses.

Movement of intangible assets is as follows:

		Computer Software	*Total*
Cost			
	31-Dec-14	**935**	**935**
Additions		433	**433**
Disposals		-	**-**
	31-Dec-15	**1,368**	**1,368**
Additions		841	**841**
Disposals		(631)	**(631)**
	31-Dec-16	**1,578**	**1,578**
Accumulated depreciation			
	31-Dec-14	**(744)**	**(744)**
Depreciation charge		(156)	**(156)**
Disposals		-	**-**
	31-Dec-15	**(900)**	**(900)**
Depreciation charge		(328)	**(328)**
Disposals		631	**631**
	31-Dec-16	**(597)**	**(597)**
Net book value			
	31-Dec-16	**981**	**981**
	31-Dec-15	**468**	**468**
	31-Dec-14	**191**	**191**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

14. Amounts due to customers

The amounts due to customers include demand or short-term maturing liabilities. As at 31 December 2016, TL 500 (31 December 2015 – None) is short-term natured.

An analysis of customers by economic sectors is as follows:

	31 December 2016	31 December 2015
Trade and services	16	-
Construction	32	4
Non-banking credit organizations	687	20
Manufacturing	33	9
Real estate and & Rental services	409	11
Energy	2,350	-
Other	9	15
Amounts due to customers	**3,536**	**59**

15. Amounts due to banks and money market deposits

	31 December 2016		31 December 2015	
	Amount	Maturity & interest rates	Amount	Maturity & interest rates
Payables to Money Market	11,306	10.2% & Jan 2017	-	-
Payables regarding repurchase agreements	4,657	7.5-7.95% & Jan 2017	-	
Due to banks – demand deposits	381		10,213	
Amounts due to customers	**16,344**		**10,213**	

16. Funds borrowed

Information on banks:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
From Domestic Banks and Institutions	15,012	38,612	-	1,751
From Foreign Banks, Institutions and Funds	-	13,711	-	-
Due from Parent Bank – Foreign Bank	31,362	93,200	-	69,560
Total	**46,374**	**145,523**	-	**71,311**

Information on maturity structure of borrowings:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Short-term	15,012	45,664	-	30,211
Medium and Long-term	31,362	99,859	-	41,100
Demand Deposit from Parent Bank	-	-	-	-
Total	**46,374**	**145,523**	-	**71,311**

The borrowings comprise of mainly fixed interest rate instruments. As at 31 December 2016, TL 6,660 of the borrowings is with floating rate (31 December 2015 –None).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

17. Debt securities issued

The Bank has issued a fixed rate bond at 26 October 2016, with nominal amount of TL 37,500, with 90 day term maturing at 24 January 2017. The carrying amount of the bond is TL 37,239 as at 31 December 2016 (31 December 2015 – None).

18. Derivative financial instruments

The Bank does not have any hedging purpose derivatives. The derivatives are for trading purposes.
Derivative financial instruments held for trading purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying items, such as financial instrument prices, reference rates, commodity prices or indices. Derivative financial instruments used mainly include currency forwards, and currency swaps.

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

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

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

	31 December 2016		31 December 2015	
	Notional amount	**Carrying value**	**Notional amount**	**Carrying value**
Currency swaps	21,549	(878)	80,499	566
Currency forward	27,713	(444)	7,629	(10)
	49,262	**(1,322)**	**88,128**	**556**

As at 31 December 2016 and 2015 set out below accruals of derivative instruments:

	Assets		Liabilities	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Currency swaps	-	604	(878)	(38)
Currency forward	281	-	(725)	(10)
Fair value of derivatives	**281**	**604**	**(1,603)**	**(48)**

The Bank's derivative financial instruments mostly comprise of OTC derivatives.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

19. Taxation

Corporate tax:

The Bank is subject to Turkish corporate taxes. Many clauses of Corporate Tax Law No. 5520 ("Tax Law") which are valid starting from 1 January 2006, were taken into effect after being published in the Official Gazette dated 21 September 2006 No. 26205. According to the Tax Law, the corporate tax rate in Turkey is payable at the rate of 20% since 1 January 2006. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (such as capital gains derived from the sale of equity investments) and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

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

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date. Tax returns are open for five years from the beginning of the year following the date of filing during which period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

The tax expense comprises:

	31 December 2016	31 December 2015
Current tax charge	(4,191)	-
Deferred tax credit/(charge)	(42)	(2,271)
Income tax expense	**(4,233)**	**(2,271)**

	31 December 2016	31 December 2015
Profit before tax	**20,543**	**12,001**
Tax calculated based on the current tax rate of 20%	(4,109)	(2,400)
Net effect of income except/(non-deductible expenses)	(124)	129
Income tax expense	**(4,233)**	**(2,271)**

Deferred tax related to items credited to other comprehensive income during the year is as follows:

	31 December 2016	31 December 2015
Tax effect of net gains/(losses) on investment securities available-for-sale	(22)	22
Income tax credited/(charged) to other comprehensive income	**(22)**	**22**

Current tax related to items credited to other comprehensive income during the year is as follows:

	31 December 2016	31 December 2015
Net gains/(losses) on investment securities available-for-sale	(3)	-
Income tax credited/(charged) to other comprehensive income	(3)	-

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

19. Taxation (continued)

The movements in the deferred tax asset for the year ended 31 December 2016 and 2015 are as follow:

	2016	2015
Opening - 1 January	1,053	3,302
Recognised in profit or loss statement	(42)	(2,271)
Recognised in other comprehensive income	(22)	22
Closing - 31 December	**989**	**1,053**

Deferred tax assets and liabilities and their movements are as follows:

	2014	Origination and reversal of temporary differences In the income statement	Origination and reversal of temporary differences In the comprehensive income	2015	Origination and reversal of temporary differences In the income statement	Origination and reversal of temporary differences In the comprehensive income	2016
Tax effect of deductible temporary differences							
Tax losses carried forward	-	247	-	247	(247)	-	-
Provision for loans to customers	3,212	(2,786)	-	426	(126)	-	300
Reserve for employee termination benefits	42	222	-	264	76	-	340
Miscellaneous expense accruals	41	107	-	148	(94)	-	54
Amortization and depreciation differences	-	17	-	17	(17)	-	-
Other	17	45	-	62	302	-	364
Deferred tax asset	3,312	(2,148)	-	1,164	(106)	-	1,058
Tax effect of taxable temporary differences							
Valuation differences of investment securities	(2)	(131)	22	(111)	133	(22)	-
Amortization and depreciation differences	(8)	8	-	-	(69)	-	(69)
Deferred tax liability	(10)	(123)	22	(111)	64	(22)	(69)
Net deferred tax asset/(liability)	**3,302**	**(2,271)**	**22**	**1,053**	**(42)**	**(22)**	**989**

20. Employee benefits

The details of employee benefits is as follows:

	31 December 2016	31 December 2015
Bonus provision	1,350	1,025
Employee termination benefits provision	180	234
Unused vacation provision	172	65
	1,702	**1,324**

Reserve for employee termination benefits

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2016 is TL 4,297 (full TL) (31 December 2015: TL 4,093 (full TL)).

The Bank reserved for employee severance indemnities in the accompanying financial statements using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement payment and discounted by using the current market yield on government bonds at the reporting date in compliance with the IAS 19 - *Employee Benefits*.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

20. Employee benefits (continued)

As at 31 December 2015 and 2014, the major actuarial assumptions used in the calculation of the total liability are as follows:

	2016	**2015**
Discount Rate (%)	3.49	3.49
Expected Rate of Salary/Limit Increase (%)	6.00	6.00
Estimated Employee Turnover Rate (%)	9.70	9.70

Other benefits to employees

The Bank has provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the IAS 19 - *Employee Benefits* in the accompanying financial statements.

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

	2016	**2015**
Opening - 1 January	234	160
Interest and Service cost	25	79
Cancellations due payments	(79)	(5)
Closing - 31 December	**180**	**234**

Movement in unused vacation liability provision during the year is as follows:

	2016	**2015**
Opening - 1 January	65	49
Current year provision/(cancellation), net	107	16
Closing - 31 December	**172**	**65**

21. Equity

Share capital:

As of 31 December 2016, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 255,000 (2015: TL 255,000), comprising 255 million (Full TL) registered shares of one TL 0.01 each.

As of 31 December 2016 the Bank's historical subscribed and issued share capital was TL 255,000 (31 December 2015: TL 255,000).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

21. Equity (continued)

As of 31 December 2016 and 2015 the composition of shareholders and their respective percentage of ownership can be summarised as follows:

	31 December 2016		31 December 2015	
	Amount	%	Amount	%
PASHA Bank OJSC	254,795	99.92	254,795	99.92
Others	205	0.08	205	0.08
Total	**255,000**		**255,000**	

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The statutory legal reserve is 324 as of 31 December 2016 and 2015.

22. Earnings per share

For the periods ended 31 December, the calculation of earnings per share was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding as follows:

	31 December 2016	31 December 2015
Denominator:		
Weighted average number of shares	255,000	161,111
Numerator:		
Profit for the year	16,310	9,730
Basic and diluted profit per share	**0.06**	**0.06**

23. Commitments and contingencies

Litigation:

The Bank has provided TL 262 (31 December 2015: TL 308) of provision for the disputed legal cases filed by various persons and institutions, high probability of occurrence and requiring cash outflow. Although there are other ongoing lawsuits that against the Bank, do not expect high possibility of against result and cash outflows related to these cases.

Financial commitments and contingencies:

The Bank enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of letters of guarantees, letters of credit and other guarantees. All these arrangements are related to the normal lending activities of the Bank. The exposure to credit loss in the event of non-performance of the other party is presented by the contractual notional amount of those instruments.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

23. Commitments and contingencies (continued)

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

	31 December 2016	31 December 2015
Letter of credit	6,984	22,501
Letter of guarantee	171,570	104,494
Other guarantees	19,356	-
Total non-cash loans	**197,910**	**126,995**
Other commitments	11	2,034
Total	**197,921**	**129,029**

As at 31 December 2016, TL 713 has been obtained as collateral against letter of guarantees.

Assets pledged as collaterals:

	31 December 2016	31 December 2015
Reserve requirement with T.R. Central Bank	19,579	11,772
Securities given as collateral	1,029	1,026
Total	**20,608**	**12,798**

Transferred financial assets:

As at 31 December 2016, the carrying amount of transferred financial assets, which have been transferred but are subject to continued recognition in full and the associated recognized liabilities are presented below:

	31 December 2016	31 December 2015
Securities sold under repurchase agreements		
Carrying amount of transferred assets	4,803	-
Carrying amount of associated liabilities	4,657	-

24. Impairment losses on interest bearing assets

The movements in allowance for impairment losses on interest bearing assets were as follows:

	2016	
	Corporate lending	*Total loans to customers*
At 1 January	**2,130**	**2,130**
Charge for the year	-	-
Reversal in current year	(630)	(630)
At 31 December	**1,500**	**1,500**

	2015	
	Corporate lending	*Total loans to customers*
At 1 January	**468**	**468**
Charge for the year	1,662	1,662
At 31 December	**2,130**	**2,130**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

25. Net fee and commission income

Net fee and commission income comprise:

	2016	2015
Guarantees and letters of credit	1,171	480
Money transfer operations	31	23
Settlements operations	14	-
Other	102	76
Fee and commission income	**1,318**	**579**
Fee to correspondent banks	(102)	(83)
Money transfer operations-expenses	(55)	(130)
Commissions for letter of guarantee obtained	(20)	-
Settlements operations	(11)	(10)
Other fee expenses	-	(52)
Fee and commission expense	**(188)**	**(275)**
Net fee and commission income	**1,130**	**304**

26. Personnel, general and administrative expenses

Personnel expenses comprise:

	2016	2015
Salaries and bonuses	6,914	5,938
Social security costs	651	487
Other employee related expenses	729	600
Total personnel expenses	**8,294**	**7,025**

General and administrative expenses comprise:

	2016	2015
Operating leases	1,519	1,057
Professional services	1,034	561
Transportation and business trip expenses	327	167
Advertising costs	695	329
Insurance expenses	95	62
Utilities	79	85
IT and software expenses	1,397	1,033
Repair and maintenance	27	8
Communications	403	291
Security expenses	210	180
Stationary	122	121
Subscription fees	403	496
Representation	167	136
Taxes, other than income tax	489	652
Other expenses	836	425
Total general and administrative expenses	**7,803**	**5,603**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

27. Related party disclosures

A number of transactions were entered into with related parties in the normal course of business. The nature of the related party transactions and balances are presented below. As stated in Note 1 Principal Activities, the shareholder structure of the Bank has been changed in year 2015. As at 31 December 2015, the main shareholder had been PASHA Bank OJSC, previously it was Aksoy Holding A.Ş. As at 31 December 2015, Board of Directors included a member related to Aksoy Holding A.Ş., for the presentation purposes, Aksoy Holding A.Ş. was included in the related party disclosures below for the year ended 31 December 2015.
Balances with related parties:

Cash loans

	31 December 2016 (*)	31 December 2015
Aksoy Holding A.Ş.	-	8,082
	-	**8,082**

(*) The outstanding cash loan balances of Aksoy Holding A.Ş. has not been presented in the disclosure above for 31 December 2016.

Non-Cash loans

	31 December 2016	31 December 2015
PASHA Bank OJSC (Parent)	30,199	22,475
	30,199	**22,475**

(*) The outstanding noncash loan balances of Aksoy Holding A.Ş. has not been presented in the disclosure above for 31 December 2016.

Amounts due from banks

	31 December 2016	31 December 2015
PASHA Bank OJSC (Parent)	-	10,234
	-	**10,234**

Amounts due to banks and funds borrowed

	31 December 2016	31 December 2015
PASHA Bank OJSC (Parent)	124,943	79,773
JSC PASHA Bank Georgia (Other)	6,660	-
Kapital Bank ASC (Other)	7,051	-
	138,654	**79,773**

Interest and commission income

	1 January – 31 December 2016	1 January – 31 December 2015
PASHA Bank OJSC(Parent)	237	98
JSC PASHA Bank Georgia(Other)	11	18
Aksoy Holding A.Ş.	-	114
	248	**230**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

27. Related party disclosures (continued)

Interest and commission expense

	1 January – 31 December 2016	**1 January – 31 December 2015**
PASHA Bank OJSC (Parent)	2,835	746
JSC PASHA Bank Georgia (Other)	33	-
Kapital Bank ASC (Other)	13	-
	2,881	**746**

Compensation of key management personnel of the Bank

The executive and non-executive members of Board of Directors and key management received remuneration and fees amounting to TL 2,495 comprising salaries and other benefits for the year 2016 (2015: TL 1,368).

28. Subsequent events

None.