KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 AND INDEPENDENT AUDITOR'S REPORT

Table of contents

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kuveyt Türk Katılım Bankası Anonim Şirketi A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Allowance for probable losses on due from corporate and commercial financial activities At 31 December 2016, due from financing activities were TL 23,537,401 thousands against which allowance for impairment on due from financing activities of TL 665,472 thousands were recorded ending with a net carrying amount of TL 22,871,929 thousands. The details are disclosed in Note 7 of the consolidated financial statements. For impairment allowances, a management decision and judgement is required to determine when an impairment event has occurred and a necessary classification should be done. So there is a risk of misstatement in the calculation of the allowance related to the classification of performing / funds in arrears due from financial activities in accordance with IAS 39. Furthermore, the specific allowances are made against the carrying amount of due from financing activities that are identified as being impaired based on regular reviews of outstanding balances to reduce these due from financing activities to their recoverable amounts. In assessing the recoverable amounts of the due from financing activities, the estimated future cash flows are discounted to their present value using the loans' original yield which requires management's significant judgement to exercise. Portfolio basis (collective) allowances are maintained to reduce the carrying amount of portfolios of similar due from financing activities to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Because of the significance of these judgements and the size of due from financing activities, the audit of allowance for probable losses on due from corporate and commercial financing activities is a key area of focus. Furthermore there is a risk of misstatement in the calculation of allowance related to errors in the main parameters of allowance for probable losses on due from corporate and commercial financing activities (specific and collective) in accordance with IAS 39 in the IFRS financial statements.	We reviewed the provisioning methodology implemented by the Group. We understood and tested the key controls over the classification and provisioning methodology such as; system based and manual controls over the timely recognition of impaired due from financing activities, controls over the impairment calculation models including data inputs, controls over cash flow estimates and finally governance controls which includes the management meetings for the approval process of allowance for probable losses on due from financing activities. In addition to testing the key controls, we selected samples of due from financing activities outstanding at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing due from financing activities, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing due from financing activities, we assessed that the borrowers did not exhibit any possible default risk that may affect the repayment abilities. We also tested the appropriateness and accuracy of the inputs to those models, such as probability of default and loss given default rates, and where available, compared data and assumptions made to external benchmarks. Finally, we understood and tested the controls over related disclosures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Müjde Şehsuvaroğlu
Partner

Istanbul, 21 March 2017

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of financial position as at December 31, 2016
(Currency – In thousands of Turkish Lira - TL)

	Notes	December 31, 2016	December 31, 2015
Assets			
Cash and balances with the Central Bank	4	**1,875,863**	1,970,359
Balances with other banks and financial institutions	4	**5,979,425**	4,753,336
Reserve deposits at the Central Bank	5	**5,678,251**	5,141,295
Financial assets – held for trading	6	**166,762**	89,820
Derivative financial instruments	20	**110,049**	44,606
Share Certificates	6	**390**	390
Precious Metal Fund		**-**	207
Sukuk held for trading	6	**56,323**	44,617
Financial assets – available-for-sale	6	**3,751,680**	2,354,196
Due from financing activities, net	7	**27,087,876**	24,669,042
Minimum finance lease payments receivable, net	8	**1,545,637**	1,183,424
Precious Metals		**802,280**	471,703
Construction projects, net	10	**77,939**	52,904
Joint venture		**15,236**	8,378
Investment properties, net	11	**26,129**	33,807
Property and equipment, net	13	**426,867**	430,428
Intangible assets, net	14	**140,467**	119,452
Deferred tax assets	17	**110,410**	98,469
Other assets	9	**700,487**	456,682
		48,385,309	41,833,295
Assets and a disposal group held for sale	12	**42,667**	27,332
Total assets		**48,427,976**	41,860,627
Liabilities and equity			
Due to other financial institutions and banks	15	**3,273,326**	4,261,643
Sukuk securities issued	15	**4,763,981**	3,636,119
Subordinated loans	15	**1,981,646**	589,734
Money market balances		**1,219,873**	711,542
Current and profit / loss sharing investors' accounts	16	**32,016,053**	28,145,291
Derivative financial instruments	20	**257,556**	170,173
Employee benefit obligations	18	**122,508**	106,905
Income taxes payable	17	**27,851**	36,472
Other liabilities and provisions	19	**525,323**	502,024
Total liabilities		**44,188,117**	38,159,903
Share capital	21	**2,787,322**	2,527,322
Share premium		**22,933**	22,933
Available for sale investments reserve, net of tax		**(35,279)**	5,394
Employee termination benefits reserve, net of tax		**(13,753)**	(14,916)
Legal reserves and retained earnings	22	**1,443,117**	1,142,532
Currency translation differences		**126,484**	70,961
Hedging fund		**(70,863)**	(32,660)
Other reserve	22	**(22,162)**	(22,162)
Non-controlling interest		**2,060**	1,320
Total equity attributable to equity holders of the parent		**4,239,859**	3,700,724
Total liabilities and equity		**48,427,976**	41,860,627

The policies and explanatory notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended December 31, 2016
(Currency – In thousands of Turkish Lira - TL)

	Notes	2016	2015
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		**1,272,621**	1,006,260
Profit on originated loans from current accounts and equity		**1,550,706**	1,332,032
Profit on deposits with other banks and financial institutions		**42,866**	22,542
Profit on finance leases		**105,511**	75,182
Total income from financing activities		**2,971,704**	2,436,016
Profit shares distributed to participation accounts		**(943,006)**	(732,444)
Profit shares distributed to other banks and financial institutions		**(532,400)**	(396,294)
Net financing income		**1,496,298**	1,307,278
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	**(574,792)**	(360,725)
Net financing income after provision for impairment in due from financing activities and lease receivables		**921,506**	946,553
Foreign exchange gain, net		**196,215**	153,992
Net financing income after net foreign exchange gain / (loss)		**1,117,721**	1,100,545
Fees and commission income	25	**477,345**	413,140
Net trading income		**162,970**	49,049
Other income		**191,077**	141,206
Share of a joint venture income		**1,938**	-
Total other operating income		**833,330**	603,395
Fees and commission expense	25	**(164,264)**	(145,137)
Staff costs	26	**(625,109)**	(529,000)
Depreciation and amortization expense		**(82,160)**	(103,739)
Withholdings and other taxes		**(47,337)**	(36,030)
Rent expense		**(101,352)**	(87,921)
Other expenses	27	**(234,868)**	(183,308)
Share of (loss) of a joint venture		**-**	(2,227)
Total other operating expense		**(1,255,090)**	(1,087,362)
Income before taxation		**695,961**	616,578
Current tax charge	17	**(124,960)**	(159,394)
Deferred tax (charge)/credit	17	**(6,277)**	43,062
Net income for the year		**564,724**	500,246
Attributable to:			
- Owners of the equity		**563,984**	500,143
- Non-controlling interests		**740**	103
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translation of the foreign subsidiary		**17,320**	15,891
Available-for-sale investments reserve		**(40,673)**	(15,675)
-Net change in fair value		**(50,841)**	(19,594)
-Deferred tax relating to component of other comprehensive income		**10,168**	3,919
Items that will not be reclassified to profit or loss			
Employee termination benefits reserve		**1,163**	2,521
-Net change in fair value		**1,454**	3,151
-Deferred tax relating to component of other comprehensive income		**(291)**	(630)
Other comprehensive income for the year		**(22,190)**	2,737
Total comprehensive income for the year		**542,534**	502,983
Attributable to:			
- Owners of the equity		**541,794**	502,880
- Non-controlling interests		**740**	103
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	23	**0.208**	0.203

The policies and explanatory notes are an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of changes in equity for the year ended December 31, 2016
(Currency – In thousands of Turkish Lira - TL)

	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	Available-for-sale investments reserve	Employee termination benefits reserve	Currency Translation Differences	Hedging Funds	Non-Controlling Interest	Total
Balances at January 1, 2015	2,287,005	23,250	77,869	843,443	(22,123)	21,069	(17,437)	22,410	-	1,217	3,236,703
Share capital increase	240,000	-	-	(240,000)	-	-	-	-	-	-	-
from retained earnings	240,000	-	-	(240,000)	-	-	-	-	-	-	-
cash injection	-	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves	-	-	22,418	(22,418)	-	-	-	-	-	-	-
Dividends paid	-	-	-	(38,923)	-	-	-	-	-	-	(38,923)
Total comprehensive income for the year	-	-	-	500,143	-	(15,675)	2,521	54,192	**(32,660)**	103	502,983
Other	317	(317)	-	-	(39)	-	-	-	-	-	(39)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2015	**2,527,322**	**22,933**	**100,287**	**1,042,245**	**(22,162)**	**5,394**	**(14,916)**	**70,961**	**(32,660)**	**1,320**	**3,700,724**
Share capital increase	**260,000**	-	-	**(260,000)**	-	-	-	-	-	-	-
from retained earnings	**260,000**	-	-	**(260,000)**	-	-	-	-	-	-	-
cash injection	-	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves	-	-	**22,574**	**(22,574)**	-	-	-	-	-	-	-
Hedging funds	-	-	-	-	-	-	-	-	**(38,203)**	-	**(38,203)**
Dividends paid	-	-	-	**(3,399)**	-	-	-	-	-	-	**(3,399)**
Total comprehensive income for the year	-	-	-	**563,984**	-	**(40,673)**	**1,163**	**55,523**	-	**740**	**580,737**
Other	-	-	-	-	-	-	-	-	-	-	-
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2016	**2,787,322**	**22,933**	**122,861**	**1,320,256**	**(22,162)**	**(35,279)**	**(13,753)**	**126,484**	**(70,863)**	**2,060**	**4,239,859**

The policies and explanatory notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended December 31, 2016
(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

	Notes	2016	2015
Cash flows from operating activities:			
Income from continuing operations before taxation		**695,961**	616,578
Share of (profit) / loss of a joint venture		**(1,938)**	2,227
Depreciation and amortization	11, 13, 14	**82,160**	103,739
Provision for employee termination and other benefits	18	**16,417**	13,440
Provision for personnel bonus accrual	18	**55,290**	49,677
Provision for impairment in due from financing activities and lease receivables	7, 8	**574,792**	360,725
Income accrual of funds invested		**(62,727)**	(72,859)
Reversal of impairment in investment property	10	**51**	133
Deferred income		**(37,806)**	(35,553)
Impact of exchange difference on cash at banks and loans		**(177,535)**	121,283
Expense accrual of participation accounts		**4,883**	18,994
Expense and foreign exchange accrual of funds borrowed		**39,184**	515,951
Net change in derivative financial instruments		**21,940**	142,797
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale		**(12,469)**	(22,832)
Operating income before changes in operating assets and liabilities		**1,198,203**	1,814,300
Net changes in :			
Reserve deposits at the Central Bank of Turkey		**(536,956)**	(985,686)
Due from financing activities		**(2,904,393)**	(4,963,619)
Minimum finance lease payments receivables		**(371,399)**	(467,350)
Other assets and construction projects		**(202,899)**	(130,002)
Current accounts and profit/loss sharing investors’ accounts		**3,809,798**	5,900,202
Other liabilities		**(8,170)**	189,495
Payment for employee termination benefits	18	**(7,881)**	(3,620)
Payment for personnel bonuses	18	**(49,677)**	(48,600)
Precious metals		**(330,577)**	829,763
Income taxes paid		**(140,600)**	(155,237)
Net cash used in operating activities		**455,449**	1,978,252
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	**(2,622,563)**	(1,314,465)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	**1,200,228**	1,123,574
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	**(114,246)**	(240,667)
Proceeds from sale of property and equipment, intangible assets and investment properties		**34,728**	82,006
Capital increase in investment in associates		**-**	-
Proceeds from sale of asset and liabilities held for sale		**(15,335)**	246
Net cash used in investing activities		**(1,517,188)**	(349,306)
Cash flows from financing activities:			
Dividends paid	21	**(3,399)**	(38,923)
Increase / (decrease) in due to financial institutions and banks		**344,772**	(13,631)
Sukuk securities issued		**2,329,600**	2,066,531
Sukuk securities redeemed		**(673,768)**	(1,156,091)
Increase in share capital		**-**	-
Transactions with non-controlling interest		**-**	-
Net cash provided by financing activities		**1,997,205**	857,886
Net increase in cash and cash equivalents		**935,466**	2,488,226
Net foreign exchange difference on cash and cash equivalents		**140,046**	(121,283)
Cash and cash equivalents at the beginning of the year	4	**6,565,043**	4,198,100
Cash and cash equivalents at the end of the year	4	**7,640,555**	6,565,043

The policies and explanatory notes are an integral part of these consolidated financial statements.

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş. , (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on March 21, 2017. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

The Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 75% shareholding was incorporated in June 1996 in Turkey. Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects.

The Bank's other subsidiary, Körfez Tatil Beldesi A.Ş. ("Körfez Tatil Beldesi"), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction, selling and operating of 199 "time-sharing" houses in Edremit-Balıkesir.

The Bank's other subsidiary, Kuveyt Turkish Participation Bank Dubai Limited. ("Dubai Limited"), in which the Bank has a 100% shareholding was incorporated in 2009 in Dubai, UAE. Dubai Limited is engaged in interest-free banking as a participation bank.

The Bank's other subsidiary, KT Sukuk Varlık Kiralama A.Ş has been established on September 23, 2011 in Turkey in order to issue Sukuk Securities amounting to USD 350,000,000.

The Bank's other subsidiary, KT Kira Sertifikaları Varlık Kiralama A.Ş. has been established on September 3, 2013 in Turkey in order to issue Sukuk Securities amounting to TL 150,000,000.

The Bank's other subsidiary, KT Bank AG which is 100% owned by the Bank was established in April, 2015. Main field of its operations are providing interest free corporate banking services and collecting funds through current and profit/loss sharing accounts in compliance with the regulation

The bank established a pension company jointly with Albaraka Türk Katılım Bankası A.Ş, holding 50% of the shares. It is registered with the trade name "Katılım Emeklilik ve Hayat Anonim Şirketi", 895027 registry numbered dated 17 December 2013 by İstanbul Register of Commerce.

KT Portföy Yönetim Anonim Şirketi ("Company"), which is 100% owned by the bank was established in 26 May 2015 is operating in Turkey.

The main aim of the bank is to serve its customers in every aspect of the fund management business with a participation based portfolio management company.

The Bank established an IT company with holding 100% of the shares. It is registered with the trade name ''Architect Bilişim Sistemleri ve Pazarlama Anonim Şirketi Anonim Şirketi'', dated 1 December 2015 by Istanbul Register of Commerce.

2. Summary of significant accounting policies

Basis of preparation

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

The consolidated 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 and available-for-sale investments.

The consolidated 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 and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the Banking Regulation and Supervision Agency (BRSA), Turkish Commercial Code and Turkish tax legislation.

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. 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 consolidated financial statements are disclosed in Note 2.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

New and Revised International Financial Reporting Standards

a) Amendments to IFRSs affecting amounts reported and/or disclosures in the financial statements

None.

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

IFRS 14	*Regulatory Deferral Accounts* [1]
Amendments to IFRS 11	*Accounting for Acquisition of Interests in Joint Operations* [1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* [1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants* [1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements* [1]
Annual Improvements to 2012-2014 Cycle	*IFRS 5, IFRS 7, IAS 19, IAS 34* [1]
Amendments to IAS 1	*Disclosure Initiative* [1]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception* [1]

[1] Effective for annual periods beginning on or after 1 January 2016.

IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 *Regulatory Deferral Accounts* permits an entity, which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint Operations*

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

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

This amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

2. Summary of significant accounting policies (continued)

New and Revised International Financial Reporting Standards (continued)

b) New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

This amendment include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Annual Improvements 2012-2014 Cycle

IFRS 5: Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

IAS 19: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Amendments to IAS 1 *Disclosure Initiative*

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

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

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

New and Revised International Financial Reporting Standards (continued)

c) <u>New and revised IFRSs in issue but not yet effective</u>

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

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

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

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 *Disclosure Initiative*

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

2. Summary of significant accounting policies (continued)

New and Revised International Financial Reporting Standards (continued)

c) New and revised IFRSs in issue but not yet effective (continued)

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 is amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 is issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

Amendments to IFRS 15 *Revenue from Contracts with Customers*

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 *Leases*

This 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 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Amendments to IFRS 4 *Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’*

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

2. Summary of significant accounting policies (continued)

New and Revised International Financial Reporting Standards (continued)

c) New and revised IFRSs in issue but not yet effective (continued)

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

2. Summary of significant accounting policies (continued)

Significant accounting judgments and estimates

Deferred taxes: Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Fair value of financial instruments: Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives.

Functional and presentation currency

The functional currency of the Bank and its subsidiaries located in Turkey is Turkish Lira (TL). The functional currency of Dubai Ltd is US Dollar and the KT Bank AG is EURO. The presentation currency of the Group is TL.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of TL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2016 and 2015 are derived by indexing the additions that occurred until December 31, 2005 and carrying the additions after this date with their nominal amounts.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Consolidation of subsidiaries

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2016 and 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2016 and 2015, respectively.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Details of the subsidiaries subject to consolidation are stated below:

		Effective shareholding by the Bank (%)	
Name of subsidiary	Country of incorporation	**December 31, 2016**	December 31, 2015
"Körfez Gayrimenkul İnş. Taah. Tur. San. Tic. A.Ş."	Turkey	**97.61%**	97.61%
"Körfez Tatil Beldesi San. ve Tic. A.Ş."	Turkey	**99.99%**	99.99%
"KTPB Dubai Limited"	U.A.E.	**100%**	100%
"KT Sukuk Varlık Kiralama A.Ş."	Turkey	**100%**	100%
"KT Kira Sertifikaları Varlık Kiralama A.Ş."	Turkey	**100%**	100%
"KT Portföy Yönetimi A.Ş."	Turkey	**100%**	100%
"KT Bank AG."	Germany	**100%**	100%
"Architecht Bilişim Sistemleri ve Pazarlama Tic. A.Ş"	Turkey	**100%**	100%

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

Foreign currency transactions

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement as foreign exchange gain/loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The financial statements of the Company and its Turkish subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 *Financial Reporting in Hyperinflationary Economies*. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

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

Dates	USD / TL	EUR / TL
December 31, 2015	2.91	3.18
December 31, 2016	3.52	3.71

Foreign Subsidiary

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 3.018 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of comprehensive income.

Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Furniture and office equipment	3–7 years
Motor vehicles	4-5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

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

2. Summary of significant accounting policies (continued)

Construction projects

The Group has classified its time sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation for the building is calculated on a straight-line basis over the estimated useful lives of 50 years. Land is not depreciated.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing 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 income statement when the asset is derecognized.

Impairment of non-financial assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in “other expenses” in the income statement.

2. Summary of significant accounting policies (continued)

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including those held for trading); due from financing activities (loans and receivables), held to maturity and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

All regular way purchases and sales of financial assets are recognized on the settlement date. 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. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading, the change in value is recognized through profit and loss.

Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit sharing rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value, except for equity investments where there is no quoted price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment. For investments that are actively traded in organized financial markets, fair value is determined by reference to market bid prices at the close of business on the balance sheet date.

Unrealized gains and losses are recognized directly in other comprehensive income under equity. When the security is disposed of or determined to be impaired, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Profit share earned while holding investment securities is reported as profit share income.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted closing average bid prices. All related realized and unrealized gains or losses are recognized in income.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective yield method. Gains or losses are recognized in profit or loss when the investments are derecognized as impaired, as well as through the amortization process.

Due from financing activities, net

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as “due from financing activities” and are carried at amortized cost using the effective profit rate. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs, and all other premiums or discounts. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective profit rate of the instrument.

All credits and advances are recognized when cash is advanced to borrowers.

2. Summary of significant accounting policies (continued)

Precious metal accounts

Gold transactions are accounted under "precious metal depot account" and valuation is performed with the current ounce of gold prices in the market.

Derivative financial instruments

The Bank enters into transactions with derivative instruments including swaps in the foreign exchange and capital markets. All of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39 "Financial Instruments: Recognition and Measurement", they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at fair value on the date which a derivative contract is entered into and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement, which are recognized in net trading income. The fair value of these derivatives is determined using principally a discounted cash flow analysis. Fair value of forward and swap contracts are determined based on the comparison of the original forward rate calculated by market interest rates of the related currency for the remaining maturity. Each derivative transaction is carried as asset when the fair value is positive and as liability when the fair value is negative.

The Group enters into profit share and cross currency swap transactions in order to hedge the change in fair value of fixed-rate financial instruments. While applying fair value hedge accounting, the changes in fair values of hedging instrument and hedged item are recognised in income statement. If the hedging is effective, the changes in fair value of the hedged item is presented in statement of financial position together with the fixed-rate loan, and in case of fixed-rate financial assets available for sale, such changes are reclassified from shareholders' equity to income statement.

The Group performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the "Dollar off-set model" and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness. The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised to income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

While discontinuing cash flow hedge accounting, the cumulative gains/losses recognised in shareholders' equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item are recognised in income statement, the gain/losses accounted for under shareholders' equity, are recognised in income statement.

Embedded derivatives

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2. Summary of significant accounting policies (continued)

Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group 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 Group has transferred their 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.

Where the Group 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 Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the income statement in the year of acquisition. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In business combinations from 1 January 2010, if the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date through profit or loss. Furthermore any acquisition costs incurred are expensed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the bank's cash–generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

2. Summary of significant accounting policies (continued)

Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Impairment of financial assets

a) Assets carried at amortized cost

The Group assets at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;
(c) the Group 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 becomes 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 Bank, including:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets of the Group.

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows includes the realization of collateral when appropriate.

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

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

2. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

a) Assets carried at amortized cost (continued)

A write off is made when all or part of a credit 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 credit. Subsequent recoveries of amounts previously written off are included in "other income" in the income statement.

The Bank's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank's equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

b) Available for sale financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on equity instruments are not reversed.

c) Available-for-sale financial assets carried at fair value

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

d) *Renegotiated financing and leasing receivables*

Where possible, the Bank seeks to restructure financing and leasing receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Profit share income continues to be accrued at the original effective or the current profit rates at the renegotiation dates. The Bank does not offer a deduction in the loan amount to its customers. The financing and leasing receivables continue to be subject to an individual or collective impairment assessment calculated using the original effective yield.

Current accounts and profit / loss sharing investors' accounts

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

2. Summary of significant accounting policies (continued)

Due to other financial institutions and banks

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

Net Investment Hedge

The Group enters into foreign currency risk arising from net investments in foreign affiliates are hedged with long-term foreign currency borrowings&deposits and the currency translation differences arising from the conversion of net investments in foreign affiliates and accounts long-term foreign currency borrowings into TL for other profit reserves and hedging reserves, respectively in equity.

Employee benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the actuarial valuation by independent actuary. All actuarial gains and losses are recognized in the comprehensive income statement.

(b) Defined contribution plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an expense.

Leases

The group as lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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.

2. Summary of significant accounting policies (continued)

Finance lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of return on the remaining balance of the liability. Finance charges are reflected in the income statement.

The group as lessor

Finance lease

Under finance leases the Group transfers substantially all risks and benefits incidental to ownership of the leased item. The Group presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Income and expense recognition

Fees and commissions are recognized based on the purposes for which such fees and commissions are collected and the basis of accounting for any associated financial instrument. Commissions and fees that are collected as an integral part of the profit share rate of loans are treated as an adjustment to the profit share rate. Commissions and fees on loans that are collected as reimbursement of expenses incurred and are not considered as an adjustment to the profit share rate and commission income from various banking services are recognized as income when collected. Fees (such as credit card fees) that are related to servicing a loan are recognized on a straight-line basis over the period of the service is provided.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 66% - 99% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group’s right to receive the payment is established.

Income earned on available-for-sale equity investments, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

2. Summary of significant accounting policies (continued)

Income tax

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that 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 balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

2. Summary of significant accounting policies (continued)

Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

Related parties

For the purposes of these financial statements, shareholders, key management personnel and Board of Directors' Members, in each case together with companies controlled by/or affiliated with them and their close family members, associated companies are considered and referred to as related parties.

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

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

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

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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.

Subsequent events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

2. Summary of significant accounting policies (continued)

Reclassifications

None.

3. Segment reporting

For management purposes, the Group is organized into six business segments:

Retail Banking – Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. Segment portfolio comprised of all Turkish individuals that have deposits under TL 1.25 million and loans that are less than TL 750,000 (full amount) and all foreign nationals' loans that are less than TL 500,000 (full amount).

Private Banking – Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. Segment portfolio comprised of all Turkish individuals that have deposits more than TL 1.25 million and loans that are more than TL 750,000 (full amount) and all foreign nationals' loans that are more than TL 500,000 (full amount).

Small Business Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. Segment portfolio comprised of all businesses that have annual sales turnover between TL 3 million - TL 30 million and their individual owners.

Micro Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for small and medium sized enterprises. Segment portfolio comprised of all businesses that have annual sales turnover up to TL 3 million full amount and their owners.

Commercial Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. Segment portfolio comprised of all businesses that have annual sales turnover more than TL 30 million and their individual owners except customer of corporate branches.

Corporate Banking – Principally handling loans and other credit facilities and current, saving and investment accounts for all corporate customers. Segment portfolio comprised of all businesses in corporate branches.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

3. Segment reporting

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2016 and 2015, respectively.

For the period ended December 31st, 2016	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Tresaury, International & Investment Banking	Segments Total	Recon-ciliation	Notes	Grand Total
Income from financing activities & sukuk	477,002	1,093,675	608,130	421,711	371,186	**2,971,704**	-		**2,971,704**
Intersegment income	845,028	(409,363)	(363,542)	(281,137)	209,014	-	-		-
Total financing income	**1,322,030**	**684,312**	**244,588**	**140,574**	**580,200**	**2,971,704**	**-**		**2,971,704**
Profit shares distributed	(696,410)	(159,483)	(32,186)	(24,038)	(566,574)	**(1,478,691)**	3,285	(a, b)	**(1,475,406)**
Credit loss expense	(20,010)	(200,616)	(284,810)	(75,138)	-	**(580,574)**	5,782		**(574,792)**
Net financing income	**605,610**	**324,213**	**(72,408)**	**41,398**	**13,626**	**912,439**	**9,067**		**921,506**
Foreign exchange gain/loss, net	37,833	51,896	23,541	15,206	992	**129,468**	66,747	(b)	**196,215**
Net trading income	-	-	-	-	162,970	**162,970**	-		**162,970**
Net fees & commission and other income	145,843	199,517	79,641	125,544	1,636	**552,181**	(46,085)	(b)	**506,096**
Other expenses / income (net)	(382,514)	(351,822)	(206,998)	(75,585)	(40,637)	**(1,057,556)**	(33,270)	(a, b)	**(1,090,826)**
Segment profit / (loss)	**406,772**	**223,804**	**(176,224)**	**106,563**	**138,587**	**699,502**	**(3,541)**		**695,961**
Tax expenses	-	-	-	-	-	-	(131,237)	(c)	**(131,237)**
Net profit / (loss) for the year	**406,772**	**223,804**	**(176,224)**	**106,563**	**138,587**	**699,502**	**(134,778)**		**564,724**
Segment Assets	**6,452,954**	**12,097,769**	**8,201,624**	**5,445,802**	**16,229,827**	**48,427,976**	**-**		**48,427,976**
Segment Liabilities & Equity	**20,927,595**	**8,170,790**	**2,097,615**	**2,212,034**	**10,779,571**	**44,187,604**	**4,240,372**	(d)	**48,427,976**

a) The difference resulted from the insurance fund premium expenses which included in this line in the performance reports but in the financials it is included in other expenses and classification to foreign exchange gain/(loss) in the performance reports.

b) In the performance reports some of the income and expense items related to precious metal, fx trading, fees and other incomes and other expenses treated in different ways than they are reported in the financials. So there are crossings in these income and expense items.

c) Since the tax is calculated on bank's total profit/loss the tax amount is not included in the performance of segments.

d) Total equity is not allocated to the segments.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

3. Segment reporting (continued)

For the period ended December 31st, 2015	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Tresaury, International & Investment Banking	Segments Total	Recon-ciliation	Notes	Grand Total
Income from financing activities & sukuk	449,182	935,539	477,448	359,495	214,353	**2,436,016**	-		**2,436,016**
Intersegment income	590,944	(338,822)	(286,082)	(186,929)	220,888	-	-		-
Total financing income	**1,040,126**	**596,717**	**191,366**	**172,566**	**435,241**	**2,436,016**	**-**		**2,436,016**
Profit shares distributed	(518,957)	(119,211)	(23,323)	(44,505)	(424,917)	**(1,130,913)**	2,175	(a, b)	**(1,128,738)**
Credit loss expense	(11,468)	(110,055)	(143,654)	(25,024)	-	**(290,202)**	(70,523)		**(360,725)**
Net financing income	**509,702**	**367,451**	**24,388**	**103,036**	**10,325**	**1,014,901**	**(68,348)**		**946,553**
Foreign exchange gain/loss, net	32,046	53,282	23,580	14,472	811	**124,192**	29,800	(b)	**153,992**
Net trading income	-	-	-	-	49,049	**49,049**	-		**49,049**
Net fees & commission and other income	89,569	203,358	83,819	57,821	8,405	**442,972**	(33,763)	(b)	**409,209**
Other expenses / income (net)	(317,751)	(329,487)	(186,507)	(66,076)	(22,275)	**(922,095)**	(20,130)	(a, b)	**(942,225)**
Segment profit / (loss)	**313,566**	**294,605**	**(54,719)**	**109,253**	**46,316**	**709,020**	**(92,442)**		**616,578**
Tax expenses	-	-	-	-	-	-	(116,332)	(c)	**(116,332)**
Net profit / (loss) for the year	**313,566**	**294,605**	**(54,719)**	**109,253**	**46,316**	**709,020**	**(208,774)**		**500,246**
Segment Assets	**4,990,489**	**10,241,907**	**7,288,020**	**5,083,323**	**14,256,887**	**41,860,627**	**-**		**41,860,627**
Segment Liabilities & Equity	**18,216,751**	**6,585,526**	**1,425,005**	**2,341,094**	**9,591,528**	**38,159,903**	**3,700,724**	(d)	**41,860,627**

a) The difference resulted from the insurance fund premium expenses which included in this line in the performance reports but in the financials it is included in other expenses and classification to foreign exchange gain/(loss) in the performance reports.

b) In the performance reports some of the income and expense items related to precious metal, fx trading, fees and other incomes and other expenses treated in different ways than they are reported in the financials. So there are crossings in these income and expense items.

c) Since the tax is calculated on bank's total profit/loss the tax amount is not included in the performance of segments.

d) Total equity is not allocated to the segments.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

4. Cash and balances with banks

	December 31, 2016	December 31, 2015
Cash on hand	**1,615,907**	1,754,547
Balances with the Central Bank of Turkey	**259,956**	215,812
Cash and balances with the Central Bank of Turkey	**1,875,863**	1,970,359
Balances with banks and other financial institutions	**5,979,425**	4,753,336
Sub Total	**7,855,288**	6,723,695
Deposit with maturity more than three months	**(119,142)**	(31,963)
Less: Interbank gold deposits	**(95,591)**	(126,689)
Total	**7,640,555**	6,565,043

As of December 31, 2016 and 2015, "balances with other banks and financial institutions" are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

	2016				2015			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency
Deposits with other banks and financial institutions	**-**	**1,383,293**	**-**	**0.71%**	-	1,154,714	-	0.64%
Total		**1,383,293**				1,154,714		

5. Reserve deposits at the Central Bank of Turkey

	2016		2015	
	Foreign currency (full)	TL	Foreign currency (full)	TL
USD	**1,115,882,587**	**3,927,014**	1,307,297,427	3,801,098
EUR	**100,000,000**	**370,990**	100,000,000	317,760
XAU (Standard Gold)	**10,499,864**	**1,380,247**	10,237,278	1,022,437
		5,678,251		5,141,295

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. CBRT started paying interest on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014. The reserve rates for TL liabilities vary between 4% and 10.5% for TL deposits and other liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 11.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 24% 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).

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets

Available-for-sale

	2016	2015
Financial Sukuk	**3,741,031**	2,289,057
Unlisted Shares (*)	**10,649**	65,139
Total available-for-sale financial assets	**3,751,680**	2,354,196

(*) The breakdown of unlisted shares is as follows:

		2016		2015	
	Nature of business	**Ownership %**	**Amount**	Ownership %	Amount
KFH Global Sukuk Fund	Financial institution	**-**	**-**	19	55,244
Kredi Garanti Fonu A.Ş. (KGF)	Financial institution	**1.75**	**4,719**	1.75	4,210
Neova Sigorta A.Ş.	Insurance company	**6.99**	**5,201**	6.99	4,956
Islamic International Rating Agency (IIRA)	Financial institution	**8.36**	**714**	8.36	714
Borsa Istanbul A.Ş.	Exchange entity	**0.0035**	**15**	0.0035	15
			10,649		65,139

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market price for these investments.

Information on financial assets available-for-sale:

The details of the Rent Certificates which are in Bank's Portfolio "Financial Assets Available for-Sale" are presented below as of 31 December 2016.

a) In addition; the Bank included rent certificates which are presented below and these amounts are classified under "Government debt securities" at the accompanying financial statements.

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE
XS0831353361	USD	6	T.C. HAZİNE	26/9/2012	26/3/2018	305,154	2.80
XS1141043296	USD	6	T.C. HAZİNE	25/11/2014	25/11/2024	295,705	4.48
XS0975124180	USD	6	T.C. HAZİNE	26/4/2016	10/10/2018	5,504	4.56
XS1303467077	USD	6	T.C. HAZİNE	8/6/2016	8/6/2021	466,673	4.26
TRD140721T18	TRY	6	T.C. HAZİNE	20/7/2016	14/7/2021	45,183	9.40
TRD150217T18	TRY	6	T.C. HAZİNE	18/2/2015	15/2/2017	453,989	7.80
TRD160817T11	TRY	6	T.C. HAZİNE	19/8/2015	16/8/2017	317,004	9.96
TRD140218T18	TRY	6	T.C. HAZİNE	17/2/2016	14/2/2018	443,857	10.64
TRD220921T16	TRY	6	T.C. HAZİNE	28/9/2016	22/9/2021	172,454	2.24
TRD260918T17	TRY	6	T.C. HAZİNE	28/9/2016	26/9/2018	99,696	8.80
TRD211118T18	TRY	6	T.C. HAZİNE	23/11/2016	21/11/2018	195,000	10.16

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets (continued)

Available-for-sale (continued)

Information on financial assets available-for-sale (continued)

b) The Bank purchased the rent certificates ("sukuk") as details given table below from private entities that are stated under "Other Securities" in given financial statements.

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE
XS1082151868	USD	6	ALBARAKA TURK	30/06/2014	30/06/2019	82,691	6.26
XS0922143382	USD	6	TÜRKİYE FİNANS	02/05/2013	02/05/2018	74,275	3.96
XS1057852912	USD	6	TÜRKİYE FİNANS	24/04/2014	24/04/2019	23,748	3.96
XS1120403313	USD	6	DUBAI INTERNATIONAL FINANCIAL CENTRE (DIFC)	27/04/2016	12/11/2024	25,687	4.32
XS1241110300	USD	3	DUBAI ISLAMIC BANK PJSC	03/06/2015	03/06/2020	10,570	1.16
XS1505905239	USD	3	IILMH	18/10/2016	18/01/2017	175,960	0.99
XS1523141320	USD	3	IILMH	22/11/2016	22/02/2017	175,960	1.02
XS1532723522	USD	3	IILMH	14/12/2016	14/03/2017	105,576	1.02
TRDTFVK11721	TRY	6	TÜRKİYE FİNANS	15/07/2016	10/01/2017	437	10.16

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets (continued)

Held for trading

Financial assets held for trading includes Sukuk, share certificates and B Type Gold Fund listed in the Istanbul Stock Exchange (ISE). Balance of Financial assets held for trading is as below:

	2016	2015
Sukuk	**56,323**	44,617
Share Certificates	**390**	390
B Type Gold Fund	**-**	207
	56,713	45,214

The movement in financial assets excluding derivatives may be summarized as follows:

Financial investments	**2016**		2015	
	Available for sale	**Held for trading**	Available for sale	Held for trading
At the beginning of the year	**2,354,196**	**45,214**	2,203,127	4,980
Additions	**2,565,115**	**57,448**	1,314,465	67,036
Disposals (sale and redemption)	**(1,155,714)**	**(44,514)**	(1,123,574)	(27,180)
Change in fair value	**(11,917)**	**(1,435)**	(39,822)	378
Balance at the end of the year	**3,751,680**	**56,713**	2,354,196	45,214

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets (continued)

Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities

Level I: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level III: Inputs for the asset or liability that are not based on observable market data

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as of December 31, 2016 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	**56,323**	**110,049**	**-**	**166,372**
Forward transactions	-	22,304	-	22,304
Swap transactions	-	87,745	-	87,745
Sukuk held for trading	56,323	-	-	56,323
Available-for-sale financial assets	**3,741,031**	**-**	**-**	**3,741,031**
Equity securities	-	-	-	-
Government debt securities	3,363,821	-	-	3, 363,821
Other marketable securities	377,210	-	-	377,210
Financial liabilities				
Financial liabilities held for trading	**-**	**257,556**	**-**	**257,556**
Forward transactions	-	16,753	-	16,753
Swap transactions	-	240,803	-	240,803

Prior Period	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	**44,824**	**44,606**	**-**	**89,430**
Forward transactions	-	15,836	-	15,836
Swap transactions	-	28,770	-	28,770
Other	207	-	-	207
Sukuk held for trading	44,617	-	-	44,617
Available-for-sale financial assets	**2,289,057**	**-**	**-**	**2,289,057**
Equity securities	-	-	-	-
Government debt securities	1,906,949	-	-	1,906,949
Other marketable securities	382,108	-	-	382,108
Financial liabilities				
Financial liabilities held for trading	**-**	**170,173**	**-**	**170,173**
Forward transactions	-	13,739	-	13,739
Swap transactions	-	156,434	-	156,434

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

7. Due from financing activities, net

December 31, 2016	**Corporate and Commercial**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Neither past due nor impaired	21,405,083	572,106	319,624	4,705,722	**27,002,535**
Past due not impaired	1,373,487	12,331	8,198	144,022	**1,538,038**
Impaired	758,831	11,440	13,144	16,292	**799,707**
Total gross loans	**23,537,401**	**595,877**	**340,966**	**4,866,036**	**29,340,280**
Less: Allowance for impairment on loans	(665,472)	(11,463)	(14,613)	(15,219)	**(706,767)**
Net loans (*)	**22,871,929**	**584,414**	**326,353**	**4,850,817**	**28,633,513**

December 31, 2015	**Corporate and Commercial**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Neither past due nor impaired	19,658,501	386,307	236,678	4,273,884	**24,555,370**
Past due not impaired	1,094,673	8,230	5,821	125,276	**1,234,000**
Impaired	426,154	8,798	5,299	16,064	**456,315**
Total gross loans	**21,179,328**	**403,335**	**247,798**	**4,415,224**	**26,245,685**
Less: Allowance for impairment on loans	(376,590)	(5,057)	(2,812)	(8,760)	**(393,219)**
Net loans (*)	**20,802,738**	**398,278**	**244,986**	**4,406,464**	**25,852,466**

(*) Also includes minimum finance lease payment receivables.

	2016	2015
Performing		
Funds invested from profit/loss sharing accounts	**12,599,038**	11,284,505
Funds invested from current accounts and equity	**12,903,729**	12,375,111
Income accruals on due from financing activities (*)	**1,493,263**	946,895
	26,996,030	24,606,511
Funds in arrears		
Funds invested from profit / loss sharing accounts	**386,043**	220,568
Funds invested from current accounts and equity	**400,444**	232,242
	786,487	452,810
Total	**27,782,517**	25,059,321
Impairment allowance		
Funds invested from profit / loss sharing accounts	**268,886**	158,078
Funds invested from current accounts and equity	**425,755**	232,201
	694,641	390,279
Total due from financing activities	**27,087,876**	24,669,042

(*) Also includes foreign currency evaluation differences of foreign currency indexed loans.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

7. Due from financing activities, net (continued)

Movement in impairment allowance for funds disbursed is as follows:

	December 31, 2016	December 31, 2015
Balance at January 1,	**390,279**	432,191
Charge for the period	**683,792**	451,225
Charges for the bank	**529,210**	339,790
Charge for the participation accounts	**154,582**	111,435
Recoveries of amounts previously provided for	**(230,037)**	(169,322)
Reserves written off in current year	**(149,393)**	(323,815)
Balance at the end of the year	**694,641**	390,279

The impairment allowance of TL 694,641 (December 31, 2015 – TL 390,279) is made up of a specific and collective allowance. The movements in the collective and specific allowances are analyzed below.

The movements in the collective allowance for financing activities are as follows:

	2016	2015
Balance at beginning of year	**111,456**	83,138
Provisions – bank	**32,839**	17,990
Provisions - participation accounts	**18,629**	10,328
Allowance at the end of the year	**162,924**	111,456

The movement in specific allowance is as follows:

	2016	2015
Balance at the beginning of the year	**278,823**	349,053
Provisions – bank	**496,371**	321,802
Provisions - participation accounts	**135,953**	101,105
Recoveries of amounts previously provided for	**(230,037)**	(169,322)
Reserves written off in current year	**(149,393)**	(323,815)
Balance at the end of the year	**531,717**	278,823

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

8. Minimum finance lease payments receivable, net

Minimum finance lease payments receivable (net) is as follows:

	2016	2015
Gross investment in finance leases	**1,745,190**	1,362,999
Unearned finance income	**(200,647)**	(180,140)
Total impaired receivables	**13,220**	3,505
Impairment allowance	**(12,126)**	(2,940)
Minimum lease payments receivable, net	**1,545,637**	1,183,424

Movements in the impairment allowance for leasing receivables is as follows:

	2016	2015
Balance at January 1	**2,940**	8,162
Charge for the period	**11,951**	5,115
Charges for the bank	**11,400**	4,922
Charge for the participation accounts	**551**	193
Recoveries of amounts previously provided for	**(1,296)**	(968)
Impairment allowance written off in current period	**(1,469)**	(9,369)
Balance at the end of the period	**12,126**	2,940

Gross investment in finance leases as to their maturity:

	2016	2015
Not later than 1 year	**1,119,851**	1,008,186
Later than 1 year and not later than 5 years	**493,529**	305,026
Later than 5 years	**131,810**	49,787
Non-performing receivables	**13,220**	3,505
Minimum lease payments receivable, gross	**1,758,410**	1,366,504
Less : Unearned finance income	**(200,647)**	(180,140)
Net investment in finance leases	**1,557,763**	1,186,364
Less : Allowance for impairment	**(12,126)**	(2,940)
Minimum lease payments receivable, net	**1,545,637**	1,183,424

As of December 31, 2016 TL 1,188,060 (December 31, 2015 - TL 838,140**)** gross lease receivables are denominated in foreign currency (USD and EUR).

Net investment in finance leases as to their maturity:

	2016	2015
Less than 1 year (*)	**958,746**	850,194
1 -5 year	**475,036**	288,658
More than 5 years	**123,981**	47,512
Net investment in finance leases	**1,557,763**	1,186,364

(*) Includes total impaired receivables amounting to TL 13,220 (December 31, 2015 – TL 3,505).

Material finance leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

9. Other assets

Other assets comprise the following:

	2016	2015
Clearing accounts	**192,677**	260,179
Prepaid expenses	**42,055**	36,484
Blockage for letter of guarantee	**420,596**	92,259
Receivables from banking operations	**7,623**	9,555
Value added tax (VAT) receivable	**725**	1,189
Other	**36,811**	57,016
	700,487	456,682

10. Construction projects, net

Construction projects mainly include the Dumankaya Project (time sharing houses) which belong to the subsidiary of the Bank, Körfez GYO.

	2016	2015
Uncompleted construction projects	**21,499**	39,802
Kartal Project		
Cost of land	**19,886**	34,916
Cost of project	**-**	3,389
Kilyos Land		
Cost of land	**1,613**	1,497
Güre Tesisi	**-**	11,157
Completed construction projects (inventories)	**56,440**	10,982
	77,939	61,941
(Less) Impairment provision for net realizable value	-	(9,037)
Total construction projects, net	**77,939**	52,904

11. Investment properties, net

	2016	2015
Balance at the beginning of the year	**33,807**	26,136
Additions	**858**	1,596
Disposal	**(7,471)**	(5,116)
Depreciation charge	**(1,014)**	(1,062)
Transfer from assets held for resale (Note 12)	**-**	12,386
Reversal / (charge) of provisions for investment property	**(51)**	(133)
Balance at the end of the year	**26,129**	33,807
Cost	**29,464**	37,121
Accumulated depreciation	**(2,809)**	(2,457)
Accumulated impairment	**(526)**	(857)
Net carrying amount	**26,129**	33,807

Fair value of the investment properties is TL 46,093 (December 31, 2015 - TL 57,619) which is determined based on the valuations performed by independent qualified values on December 2016.

In the current economic conditions, some of the assets held for sale could not be sold during the year and were transferred to investment property. As the assets classified to investment property are lands, they are not subject to depreciation and such transfer does not have an effect on the current and prior year results.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

12. Assets and a disposal group held for sale

At December 31, 2016, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 15,335 (December 31, 2015 – TL 13,956), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank. Movement of non-current assets held for sale is as follows:

	2016	2015
Balance at the beginning of the year	**27,332**	26,008
Additions	**15,335**	13,956
Transfer to investment property (Note 11)	-	(12,386)
Disposals	-	(246)
Balance at the end of the year	**42,667**	27,332

Gain on sale of assets held for sale amounting to TL 5,380 is included in other income in the comprehensive income statement (December 31, 2015 – TL 14,523).

13. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Total
At January 1, 2015	236,208	98,827	42,477	241	377,753
Cost					-
Additions(*)	13,657	104,712	33,586	75	152,030
Disposals	(180)	(6,723)	(19,542)	-	(26,445)
Depreciation charge for the year	(14,045)	(48,902)	(9,906)	(57)	(72,910)
At December 31, 2015, net of accumulated depreciation and impairment	**235,640**	**147,914**	**46,615**	**259**	**430,428**
Additions(*)	571	43,226	13,279	50	57,126
Disposals	(325)	(4,729)	(1,200)	(120)	(6,374)
Depreciation charge for the year	(6,590)	(36,730)	(10,962)	(31)	(54,313)
At December 31, 2016, net of accumulated depreciation and impairment	**229,296**	**149,681**	**47,732**	**158**	**426,867**

(*) TL 5,652 and TL 3,164 of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2016 and 2015, respectively. There is no property and equipment that are pledged for borrowings.

	Land and Buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Total
At December 31, 2015					
Cost	253,801	248,090	76,983	904	579,778
Accumulated depreciation	(18,161)	(100,176)	(30,368)	(645)	(149,350)
Net carrying amount	**235,640**	**147,914**	**46,615**	**259**	**430,428**
At December 31, 2016					
Cost	254,048	274,768	88,189	795	617,800
Accumulated depreciation	(24,752)	(125,087)	(40,457)	(637)	(190,933)
Net carrying amount	**229,296**	**149,681**	**47,732**	**158**	**426,867**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

14. Intangible assets, net

	Internally Generated Software	Other Software	Total
At January 1, 2015	32,053	38,278	70,331
Additions	78,971	8,070	87,041
Disposals	(8,153)	-	(8,153)
Amortization charge for the year	(20,757)	(9,010)	(29,767)
At December 31, 2015, net of accumulated amortization	82,114	37,338	119,452
Additions	47,704	8,558	56,262
Disposals	(8,414)	-	(8,414)
Amortization charge for the year	(16,795)	(10,038)	(26,833)
At December 31, 2016, net of accumulated amortization	**104,609**	**35,858**	**140,467**

At December 31, 2015			
Cost (gross carrying amount)	51,637	63,156	114,793
Accumulated amortization	(19,584)	(24,878)	(44,462)
Net carrying amount	82,114	37,338	119,452
At December 31, 2016			
Cost (gross carrying amount)	127,084	72,337	199,421
Accumulated amortization	(22,476)	(36,478)	(58,954)
Net carrying amount	**104,609**	**35,858**	**140,467**

15. Due to other financial institutions and banks, Sukuk securities issued and Subordinated loans

Due to other financial institutions and banks as of December 31, 2016 and 2015 is as follows;

		Amount in TL
Original currency	**2016**	2015
USD	**3,118,503**	4,000,516
Euro	**95,477**	165,498
TL	**59,346**	56,454
Other	**-**	39,175
Total	**3,273,326**	4,261,643

As of December 31, 2016 borrowings remaining maturities of which is less than 12 months amount to TL 3,116,471 (As of December 31, 2015 – TL 3,157,342).

The Bank provided syndicated loans, with maturity of 2 years for each loan respectively, amounting to USD 300 million and EUR 30 million in the prior period. Syndicated loans have profit share of Libor/Euribor + 1.08 % for annual maturity and profit share of Libor/Euribor + 1.25 %.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

15. Due to other financial institutions and banks, Sukuk securities issued and Subordinated loans (continued)

Sukuk securities as of December 31, 2016 and 2015 is as follows;

		Amount in TL
	2016	2015
Sukuk certificates issued USD	**3,536,069**	2,481,958
Sukuk certificates issued TL	**588,915**	602,441
Sukuk certificates issued MYR	**638,997**	551,720
Total	**4,763,981**	3,636,119

On June 26, 2014 the Bank issued 5-year rent certificate (sukuk) amounting USD 500 million with a profit share rate of 5.077 %.

Subordinated loans as of December 31, 2016 and 2015 is as follows;

		Amount in TL
	2016	2015
Subordinated loan provided by Kuwait Finance House (1)	**713,881**	589,734
Subordinated loan provided by other foreign banks (2)	**1,267,765**	-
Total	**1,981,646**	589,734

(1) The Bank obtained a subordinated loan with 10-years maturity, amounting to USD 200 million, from Kuwait Finance House on 29 September 2011. Profit share amount will be calculated as the purchase price multiplied by a profit return rate equal to the applicable margin in the Murabaha period. Classification of this subordinated loan as tier-II capital upon the receipt of the cash amounting to USD 200 million by the Bank for the purpose of supplementary capital calculation was confirmed by the BRSA by their notification dated 30 September 2011. In order to comply with the amendments made in the Regulation on Equities of the Banks published by BRSA became effective on 31 March 2016, the related loan agreement was amended as of 29 March 2016 and it was deemed appropriate for the loan to be considered as tier-II capital in accordance with BRSA notification dated 25 April 2016.

(2) Kuwait Turkish Participation Bank, on February 17, 2016 Cayman Islands' as resident Special Purpose Vehicle (SPV) KT Sukuk Company Limited with over 350 million US dollars worth of sukuk issued by the BRSA by the issue in the Regulation on the Capital Adequacy requirements having a contribution, it has provided capital loans. BRSA dated 2 September 2015 and 20008792101.01[93]E.12819 Letter of Conformity No included in the loan be included in the calculation of capital contribution to the Bank / sukuk annual rate of return is 7.90%, 5 year maturity and repayment option at the end of the Bank 10 it is determined as years. Sukuk returns under the said payment, the implementation of the transfer price of the assets, expressed as a yearly rate of return will be calculated by and principal will be made in two equal installments on July 17 and February 17 each year.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

16. Current and profit / loss sharing investors' accounts

	2016	2015
Current accounts:		
Turkish lira	**5,946,657**	4,591,567
Foreign currency	**6,047,823**	4,726,395
	11,994,480	9,317,962
Profit/loss sharing investors' accounts:		
Turkish lira	**11,948,950**	9,925,400
Foreign currency	**7,969,594**	8,822,986
	19,918,544	18,748,386
Blocked accounts:		
Turkish lira	**28,152**	13,977
Foreign currency	**5,383**	5,123
	33,535	19,100
Total current accounts and profit/loss investors' accounts	**31,946,559**	28,085,448
Expense accrual on current accounts and profit/loss sharing investors' accounts	**69,494**	59,843
Total current accounts and profit/loss sharing investors' accounts	**32,016,053**	28,145,291

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

16. Current and profit / loss sharing investors' accounts (continued)

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

			2016 (TL)			2015 (TL)
	TL	**Foreign currency**	**Total**	TL	Foreign currency	Total
Up to 1 month	**9,735,304**	**8,111,472**	**17,846,776**	7,583,090	6,666,059	14,249,149
From 1 month to 3 months	**6,979,753**	**4,376,237**	**11,355,990**	5,693,101	5,213,287	10,906,388
From 3 months to 1 year	**872,522**	**1,333,651**	**2,206,173**	903,788	1,214,403	2,118,191
Over one year	**336,180**	**201,440**	**537,620**	350,965	460,755	811,720
	17,923,759	**14,022,800**	**31,946,559**	14,530,944	13,554,504	28,085,448

At December 31, 2016 and 2015, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

		2016		2015
	Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
USD	**1,003,796,742**	**3,532,561**	1,101,182,762	3,201,799
Euro	**296,023,858**	**1,098,219**	258,105,803	820,157
Precious metals		**1,299,314**		585,998
Other		**123,112**		123,564
		6,053,206		4,731,518
Profit/loss sharing investors' accounts:				
USD	**1,407,280,348**	**4,952,502**	2,130,308,846	6,194,086
Euro	**532,867,490**	**1,976,884**	588,346,866	1,869,531
Precious metals		**1,040,208**		759,369
		7,969,594		8,822,986
		14,022,800		13,554,504

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

17. Income taxes

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying condensed consolidated interim financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base for the year ended December 31, 2016. This rate was 20% for the year ended December 31, 2015 as well. Capital gains arising from the disposal of property and equipment and investments owned for at least two years are exempt at a rate of 75% from corporate tax provided that such gains are reflected in equity with the intention to be utilized in a share capital increase within five years from the date of the disposal. The remaining 25% of such capital gains are subject to corporate tax.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate applied in 2016 is 20%. (2015: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. From 23 July 2006, withholding income tax rate is 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

In addition, it is decided to stay of execution until the publication of the decision in the Official Gazette, to avoid the circumstances and losses that are difficult or impossible to compensate subsequently and for that the annulment decision does not remain inconclusive, due to the fact that aforementioned sentence is repealed by the decision no: E. 2010/93 K. 2012/20 as of February 9, 2012 at the same meeting.

The details of income tax expense are as follows;

	2016	2015
Current tax expense	**124,838**	159,529
Prepaid tax (-)	**(96,987)**	(123,057)
Income taxes payable	**27,851**	36,472

	2016	2015
Current tax expense	**124,960**	159,394
Deferred tax credit/(charge)	**6,277**	(43,062)
Total income tax (charge)/credit	**131,237**	116,332

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

17. Income taxes (continued)

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

	2016	2015
Profit before income tax from continuing operations	**695,961**	616,578
At Turkish statutory income tax rate of 20%	**139,192**	123,316
Effect of income not subject to tax	**(13,717)**	(7,864)
Effect of expenditure not allowable for income tax purposes	**5,762**	880
Income tax charge	**131,237**	116,332

Deferred tax as of December 31, 2016 and 2015 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2016	2015
Deferred income	**29,683**	27,131
Derivative accrual	**27,731**	21,827
Provision for impairment in due from financing activities	**8,728**	6,976
Impairment provision for subsidiaries, fixed assets and assets held for sale	**36,641**	26,394
Bonus accrual of personnel	**14,755**	11,646
Deferred tax accounted under shareholders' equity	**12,841**	7,578
Reserve for employee termination benefits	**7,858**	5,913
Effect of precious metals valuation	**-**	14,440
Deferred tax assets	**138,237**	123,601
Provision for non cash loans and check commitments	**(15,874)**	(15,103)
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	**(7,754)**	(6,852)
Deferred tax accounted under shareholders' equity	**(220)**	-
Effect of precious metals valuation	**(3,131)**	-
Effect of other temporary differences	**(848)**	(1,481)
Deferred tax liabilities	**(27,827)**	(25,131)
Deferred tax asset – net	**110,410**	98,469

Movement of net deferred tax asset is as follows:

	2016	2015
Balance at the beginning of the year	**98,469**	43,953
Deferred tax (charge)/credit recognized in income statement	**(6,277)**	43,062
Deferred tax (charge)/credit recognized in equity	**18,218**	11,454
Balance at the end of the year	**110,410**	98,469

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

18. Employee benefit obligations

	2016	2015
Personnel bonus accrual	**55,290**	49,677
Employee termination benefits	**67,218**	57,228
Total employee benefit obligations	**122,508**	106,905

The movement in reserve for personnel bonus accrual is as follows:

	2016	2015
Balance at January 1	**49,677**	48,600
Utilized/paid	**(49,677)**	(48,600)
Charge for the year	**55,290**	49,677
Balance at the end of the year	**55,290**	49,677

The movement in reserve for employee termination benefits and other provisions related with employee are as follows:

	2016	2015
Balance at January 1	**57,228**	44,257
Utilized/paid	**(7,881)**	(3,620)
Service cost	**10,659**	9,736
Interest cost	**5,758**	3,704
Actuarial loss (*)	**1,454**	3,151
Balance at the end of the year	**67,218**	57,228

(*) Retirement pay liability arising from current period and amounting TL 1,454 (2015: TL 3,151) is an actuarial loss amount and deferred tax amounting to TL 291 (2015: TL 630) related with the retirement pay liability is accounted under statement of other comprehensive income.

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis 30 days' pay (limited to a maximum of TL 3.1 and TL 3.1 at December 31, 2016 and 2015, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2016 and 2015, the Group reflected a liability calculated using the actuarial valuation by independent actuary and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The amount payable consists of one month's salary limited to a maximum of TL 4,297.21 (2015: TL 3,828.37) for each period of service at 31 December 2016.

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Group, since the employment termination benefit ceiling is rearranged every six months, is calculated over TL 4,426.16 that is effective commencing on January 1, 2017 (January 1, 2016: TL 4,092.53)

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

18. Employee benefit obligations (continued)

The following actuarial assumptions were used in the calculation of the total liability:

	2016	2015
Discount rate (%)	**3.41**	3.19
Expected salary / ceiling increase rate (%)	**8.8**	8.4
Anticipated turnover rate (%)	**89**	89

19. Other liabilities and provisions

	2016	2015
Clearing accounts	**228,575**	239,021
Withholding tax and other tax payables	**57,384**	46,929
Payables to exporters and suppliers	**24,436**	28,453
Security premium for participation funds	**18,287**	15,759
Deferred revenue for non cash loans	**11,099**	10,508
Deductions on resource utilization fund	**1,753**	1,593
Other provisions and liabilites	**183,789**	159,761
Total other liabilities	**525,323**	502,024

20. Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional 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 notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair values of foreign currency and precious metals forward and swap transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of these financial statements.

								December 31, 2016
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**
Derivatives held for trading								
Inflows	110,049	-	**9,957,846**	7,203,788	671,043	684,691	765,162	633,162
Outflows	-	257,556	**10,090,191**	7,217,927	698,916	650,932	754,515	767,901

								December 31, 2015
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**
Derivatives held for trading								
Inflows	44,606	-	**6,800,047**	2,117,972	2,701,399	414,515	851,234	714,927
Outflows	-	170,173	**6,919,324**	2,113,931	2,715,461	413,731	852,293	823,908

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

21. Share capital

	2016	2015
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	**2,787 million**	2,527 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	2016		2015	
	Number	**TL**	Number	TL
At January 1	**2,527,322,000**	**2,527,322**	2,287,005,000	2,287,005
Shares issued in				
- bonus shares from retained earnings	**260,000,000**	**260,000**	240,000,000	240,000
-other	**-**	**-**	317,000	317
At year end	**2,787,322,000**	**2,787,322**	2,527,322,000	2,527,322

The Bank has increased its share capital on April 5, 2016. The share capital increase was funded from the retained earnings amounting to TL 260,000 (2015 - TL 240,000).

The Bank does not have any share type other than common shares. There is no differentiation in the rights, preferences and restriction of the common shares.

As of December 31, 2016 and 2015, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2016		2015	
	Amount	**%**	Amount	%
Kuwait Finance House	**1,737,136**	**62.3**	1,575,097	62.3
Directorate of Vakıf Foundations, Turkey	**522,449**	**18.7**	473,716	18.7
The Public Institution for Social Security, Kuwait	**251,187**	**9**	227,757	9
Islamic Development Bank	**251,187**	**9**	227,757	9
Other	**25,363**	**1**	22,995	1
Total share capital	**2,787,322**	**100**	2,527,322	100

22. Legal reserves, retained earnings, dividends paid and proposed and other reserves

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 share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the 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.

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 3,399 (2015 – TL 38,923) from the profit of the year 2015.

	2016	2015
Ordinary shares		
Amount	**3,399**	38,923
TL (full) per share	**0.001**	0.009

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

22. Legal reserves, retained earnings, dividends paid and proposed and other reserves (continued)

Other reserves

The Bank bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı on September 23, 2011, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank bought the 25% stake of the third party company in Körfez İnşaat İş Ortaklığı for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez İnşaat İş Ortaklığı amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez İnşaat İş Ortaklığı. Since the amount of the non-controlling interest in Körfez İnşaat İş Ortaklığı is negligible, the total consideration amounting to TL 22,589 recognized as a separate component of equity as being the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid.

23. Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

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

The following reflects the income and per share data used in the basic earnings per share computations:

	2016	2015
Net profit attributable to continuing operations of the Bank for basic earnings per share	**564,724**	500,246
Net profit/(loss) attributable to discontinued operations for basic earnings per share	**-**	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	**564,724**	500,246
Weighted average number of ordinary shares for basic earnings per share (thousands)	**2,719,125**	2,463,224
Basic earnings per share (expressed in full TL per share)	**0.208**	0.203

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.24% (December 31, 2015 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2015 - 18.7%), 9.0% (December 31, 2015 - 9.0%) and 9.0% (December 31, 2015 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control of the majority Shareholder are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2016 and 2015 and transactions have been entered into with related parties during the years ended:

i) Balances with financial institutions and due from financing activities:

			2016		2015
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House [1]	Kuwaiti Dinar	**82,190**	**941**	145,312	1,384
	XAU (gr.)	**112,369**	**14,771**	175,679	17,546
KFH – Bahrain	BHD	**21,339**	**199**	37,854	293
	USD	**103,219**	**363**	43,393	126
Auto Land A.S.	TL	**-**	**72,473**	-	75,138
Kuwait finance Malaysia	USD	**5,063**	**18**	5,063	15
	XAU(gr)	**-**	**-**	4,001	400
Other related parties	-	**-**	**63,903**	-	52,486
			152,668		147,388

ii) Due to other financial institutions and banks:

			2016		2015
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Public Institute for Social Securities KW [1]	USD	**221,784,496**	**780,504**	159,674,833	464,270
Kuwait Finance House [1]	USD	**414,976,131**	**1,460,384**	527,070,267	1,532,508
Islamic Development Bank	USD	**-**	**-**	7,090,334	20,618
ALAFCO	USD	**-**	**-**	57,346,692	166,742
			2,240,888		2,184,138

iii) Profit/loss sharing investors' and current accounts:

			2016		2015
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House [1]	USD	**2,197,081**	**7,732**	3,286,513	9,556
Kuwait Finance House [1]	TL	**-**	**1,000**	-	3,615
Islamic Development Bank [1]	TL	**-**	**18**	-	1,046
Kuwait Finance Malaysia	XAU (gr.)	**724,547**	**95,245**	988,647	98,740
Kuwait Finance House, Bahrain	USD	**1,243**	**4**	1,229	4
Directorate of Vakıf Foundations, Turkey [1]	TL	**-**	**31,793**	-	27,503
Neova Sigorta AS [*]	TL	**-**	**5,781**	-	13,703
	USD	**285,111**	**1,003**	1,977	6
	EUR	**-**	**-**	32,553	103
Public Institute for Social Securities KW [1]	USD	**164,644**	**579**	162,563	473
			143,155		154,749

(*) Determined as related party as the Company is under the common control of the ultimate parent.

(1) Shareholders.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures (continued)

iv) Profit shares distributed:

		2016			2015
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House [(1)]	USD	**8,307,994**	**29,237**	13,747,471	37,378
Islamic Development Bank [(1)]	USD	**-**	**-**	129,832	353
Directorate of Vakıf Foundations, Turkey [(1)]	TL	**-**	**2,670**	-	2,174
Neova Sigorta AS [(*)]	TL	**-**	**2,607**	-	6,599
Public Institute for Social Securities KW [(1)]	USD	**3,127,430**	**11,006**	3,153,182	8,573
			45,520		55,077

(*) Determined as related party as the Company is under the common control of the ultimate parent.
(1) Shareholders.

v) Non cash credits issued:

		2016			2015
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House [(1)]	USD	**10,378,355**	**36,524**	4,657,800	13,543
Kuwait Finance Malaysia	USD	**40,000**	**140**	40,000	116
Other related parties	TL		**575**		615
			37,239		14,274

(1) Shareholders.

As of December 31, 2016 no provisions have been recognized in respect of loans given to related parties (December 31, 2015 - none).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 27,255 during the year ended December 31, 2016 (December 31, 2015 – TL 18,085)

The key management personnel of the Bank are as follows ;

Hamad Abdulmohsen AL MARZOUQ	B.O.D. Chairman
Adnan ERTEM	B.O.D. Vice Chairman and Audit Committee Chairman
Nadir ALPASLAN	B.O.D. Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Fawaz KH E AL SALEH	B.O.D. Member
Mazin S.A.S AL NAHEDH	B.O.D. Member
Ahmed S. AL KHARJI	B.O.D. Member and Audit Committee
Mohamad Al-MİDANİ	B.O.D. Member and Audit Committee
Ufuk UYAN	B.O.D. Member - Chief Executive Officer

Key management includes 19 other officers together with the above B.O.D. members.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

25. Fees and commission income and expense

	2016	2015
Fees and commission income		
Commissions on loans	**167,003**	153,966
Commission income from commitments	**96,005**	88,364
Communication expense charges	**252**	429
POS commission income	**46,027**	36,962
Income from insurance & agency activities	**26,193**	19,769
Credit card fees and commissions	**45,656**	31,284
Money transfer commissions	**27,385**	25,011
Import letter of credit commissions	**8,333**	6,443
Commissions from checks and notes	**15,334**	12,371
Other	**45,157**	38,541
Total	**477,345**	413,140

	2016	2015
Fees and commission expense		
Credit card machine and fees paid for credit cards	**60,150**	47,861
Brokerage fees on borrowings	**29,632**	23,511
Correspondent bank fees	**17,366**	11,974
Fees for funds borrowed from banks and OFI	**23,669**	23,912
Money transfer commissions	**8,361**	7,249
Other	**25,086**	30,630
Total	**164,264**	145,137

26. Salaries and employee benefits

	2016	2015
Staff costs		
Wages and salaries	**383,198**	321,121
Bonus	**63,252**	55,702
Social security premiums	**79,524**	67,116
Other fringe benefits	**53,331**	41,720
Health expenses	**13,711**	13,553
Provision for employee termination benefits	**16,546**	13,102
Other	**15,547**	16,686
Total	**625,109**	529,000

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

27. Other expenses

	2016	2015
Impairment on investment property (Note 11)	**(51)**	(133)
Impairment charges/(reversal)	**(51)**	(133)
Insurance fund premium expense	**33,441**	28,852
Professional fees	**26,691**	27,400
Advertising expenses	**27,883**	13,800
Communication	**26,906**	23,656
Cleaning expense	**24,854**	21,650
Repair and maintenance expenses	**24,295**	18,150
Energy expenses	**12,390**	11,558
Grants and donations	**1,279**	7,247
Subscription and membership expenses	**7,031**	5,826
Travel and representation expenses	**4,943**	4,438
Non taxable income	**4,698**	4,690
Stationery and publishing expenses	**4,236**	4,216
Insurance expenses	**2,249**	2,004
Loss from sale of assets	**366**	782
Other	**33,606**	9,039
Other expenses	**234,868**	183,308
Total	**234,817**	183,175

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

28. Commitments and contingencies

In the normal course of its banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2016 and 2015

	2016	2015
Letters of guarantee issued by the Bank	**8,116,025**	7,340,216
Letters of credit	**1,019,786**	1,029,264
Commitments	**3,281,611**	2,792,914
Acceptance credits	**52,044**	84,108
Other guarantees	**701,362**	503,290
Total	**13,170,828**	11,749,792

Letters of Guarantee -- are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments -- are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office and three branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

The allocation of operational lease obligations due to rent agreements of branches within lease periods as of December 31, 2016 and 2015 is as follows:

	2016	2015
Within one year	**14**	14
After one year but not more than five years	**247,117**	229,199
More than five years	**474,424**	438,559
	721,555	667,772

Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL 7,016,264 and TL 6,141,002 as of December 31, 2016 and 2015 respectively. As of December 31, 2016, the amount of the checks and bonds in collection are TL 5,831,286 (December 31, 2015 – TL 5,180,693) and TL 1,175,022 (December 31, 2015 – TL 951,857) respectively.

29. Financial risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's Executive Management.

Organization of the risk management function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit and Risk Committee Audit Committee is responsible for identifying, measuring, monitoring and reporting Market, Credit, Liquidity and Operational Risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board, the Audit and Risk Committee and the Audit Committee.

Internal systems and risk management policies

The Group's Risk Management Policies established by the Board of Directors via Audit and Risk Committee are implemented and executed by Risk Management and Treasury Middle Office Department. The primary objectives of the Risk Management and Treasury Middle Office Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key performance indicators. This risk assessment is carried by the credit risk, operational risk, liquidity risk and market risk that are supported by the Treasury Middle Office, which is responsible for, among other things, monitoring treasury operations and analyzing the reasonableness of profit share rates as compared to market rates. The Risk Management and Treasury Middle Office Department is managed by the Head of Risk Management and Treasury Middle Office. Internal Systems, which comprise of Risk Management and Treasury Middle Office, Board of Inspectors and Internal Audit and Internal Control Departments, are overseen by the Chief Risk Officer who reports directly to the Audit and Risk Committee and coordinates communication, reporting and monitoring between the Audit and Risk Committee and the Risk Management and Treasury Middle Office Department.

29. Financial risk management (continued)

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared on year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

Audit committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

Risk management and treasury middle office department

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks,
- Business Continuity Plan, Process and Procedures.

Board of inspectors and internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Credit risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Gross maximum exposure	**2016**	2015
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	**5,938,207**	5,357,107
Balances with banks and other financial institutions	**5,979,425**	4,753,336
Due from financing activities	**27,087,876**	24,669,042
Minimum financial lease payments receivable, net	**1,545,637**	1,183,424
Financial assets-available for sale	**3,751,680**	2,354,196
Financial assets-held for trading	**56,713**	45,214
Other assets	**700,487**	456,682
Derivative financial instruments	**110,049**	44,606
Total	**45,170,074**	38,863,607
Contingent liabilities	**9,135,811**	8,369,480
Other guarantees	**753,406**	587,398
Commitments	**3,281,611**	2,792,914
Total	**13,170,828**	11,749,792
Total credit risk exposure	**58,340,902**	50,613,399

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2016 was TL 404,708 (December 31, 2015 - TL 287,069) and non-cash credit exposure as of December 31, 2016 was TL 189,162 (December 31, 2015 - TL 196,518) before taking account of collateral or other credit enhancements.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2016	2015
	Gross exposure	Gross exposure
Financial services	**20,306,738**	15,575,944
Construction and materials	**12,780,479**	11,599,349
General retailers	**7,368,450**	7,294,418
Manufacturing	**5,386,723**	4,782,495
Electricity	**1,973,831**	1,774,953
Health care and social services	**1,713,034**	1,380,532
Food and beverages	**1,128,846**	1,159,869
Mining operations	**467,388**	413,582
Forestry	**185,034**	203,021
Telecommunications	**209,301**	214,553
Real estate	**375,134**	374,796
Other	**6,445,944**	5,839,887
Total	**58,340,902**	50,613,399

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

Credit quality per class of financial assets

Rating and scoring models for Corporate/Commercial/SME portfolios are developed based on statistical methods by Risk Management Department. Classes of financial assets graded by ratings and scoring models are shown the table below as of 31 December 2016.

	Cash Loans	**Non-Cash Loans**	**Total**
High Quality	33%	69%	42%
Medium Quality	23%	13%	20%
Average	15%	7%	13%
Below Average	3%	1%	3%
Unrated	26%	10%	22%

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

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

2016	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Due from financing activities:					
Corporate lending	904,414	276,634	171,426	-	**1,352,474**
Consumer lending	33,502	90,083	53,342	-	**176,927**
Credit cards	4,416	2,743	1,478	-	**8,637**
Total	**942,332**	**369,460**	**226,246**	**-**	**1,538,038**

2015	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	695,566	204,218	193,739	-	1,093,523
Consumer lending	26,109	69,528	38,943	-	134,510
Credit cards	4,337	1,154	476	-	5,967
Total	726,012	274,900	233,088	-	1,234,000

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2016 and 2015 comprise of blocked accounts, property and machinery pledges.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. In addition, the Group maintains a statutory reserve deposit with the Central Bank of Turkey.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Maturity analysis of assets and liabilities as of December 31, 2016

31 December 2016	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	1,875,863	-	-	-	-	**1,875,863**
Balances with other banks and financial institutions	4,667,469	1,192,814	119,142	-	-	**5,979,425**
Reserve deposits at the Central Bank	5,678,251	-	-	-	-	**5,678,251**
Financial assets – held for trading	154,572	11,800	-	390	-	**166,762**
Derivative financial instruments	*98,249*	*11,800*	-	-	-	***110,049***
Share Certificates	-	-	-	*390*	-	***390***
Precious Metal Fund	-	-	-	-	-	**-**
Sukuk held for trading	*56,323*	-	-	-	-	***56,323***
Financial assets – available-for-sale	1,836,605	43,704	1,331,415	440,199	99,757	**3,751,680**
Due from financing activities, net	8,747,141	8,341,283	9,708,931	1,673,819	162,339	**28,633,513**
Precious Metals	802,280	-	-	-	-	**802,280**
Other assets	-	-	-	-	700,487	**700,487**
Construction projects, net	-	-	-	-	77,939	**77,939**
Joint venture	-	-	-	-	15,236	**15,236**
Investment properties, net	-	-	26,129	-	-	**26,129**
Property and equipment, net	-	-	-	-	426,867	**426,867**
Intangible assets, net	-	-	-	-	140,467	**140,467**
Deferred tax assets	-	-	-	-	110,410	**110,410**
Assets and a disposal group held for sale	42,667	-	-	-	-	**42,667**
Total assets	**23,804,848**	**9,589,601**	**11,185,617**	**2,114,408**	**1,733,502**	**48,427,976**
Due to other financial institutions and banks	1,554,426	1,562,045	156,855	-	-	**3,273,326**
Sukuk securities issued	-	588,987	4,174,994	-	-	**4,763,981**
Subordinated Loans	-	-	-	1,981,646	-	**1,981,646**
Money market balances	1,219,873	-	-	-	-	**1,219,873**
Current and profit / loss sharing investors' accounts	30,961,329	1,035,668	15,468	-	3,588	**32,016,053**
Derivative financial instruments	115,586	4,141	137,829	-	-	**257,556**
Employee benefit obligations	-	55,927	-	-	66,581	**122,508**
Income taxes payable	-	27,851	-	-	-	**27,851**
Other liabilities and provisions	-	-	-	-	525,323	**525,323**
Liabilities	**33,851,214**	**3,274,619**	**4,485,146**	**1,981,646**	**595,492**	**44,188,117**
Net	**(10,046,366)**	**6,314,982**	**6,700,471**	**132,762**	**1,138,010**	**4,239,859**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Maturity analysis of assets and liabilities as of December 31, 2015.

31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	1,970,359	-	-	-	-	**1,970,359**
Balances with other banks and financial institutions	4,721,373	10,156	21,807	-	-	**4,753,336**
Reserve deposits at the Central Bank	5,141,295	-	-	-	-	**5,141,295**
Financial assets – held for trading	65,102	24,328	-	390	-	**89,820**
Derivative financial instruments	20,278	24,328	-	-	-	**44,606**
Share Certificates	-	-	-	390	-	**390**
Precious Metal Fund	207	-	-	-	-	**207**
Sukuk held for trading	44,617	-	-	-	-	**44,617**
Financial assets – available-for-sale	1,400,586	73,131	713,999	96,921	69,559	**2,354,196**
Due from financing activities, net	7,071,967	8,704,635	8,724,171	1,225,785	125,908	**25,852,466**
Precious Metals	471,703	-	-	-	-	**471,703**
Other assets	-	-	-	-	456,682	**456,682**
Construction projects, net	-	-	-	-	52,904	**52,904**
Joint venture	-	-	-	-	8,378	**8,378**
Investment properties, net	-	-	33,807	-	-	**33,807**
Property and equipment, net	-	-	-	-	430,428	**430,428**
Intangible assets, net	-	-	-	-	119,452	**119,452**
Deferred tax assets	-	-	-	-	98,469	**98,469**
Assets and a disposal group held for sale	27,332	-	-	-	-	**27,332**
Total assets	**20,869,717**	**8,812,250**	**9,493,784**	**1,323,096**	**1,361,780**	**41,860,627**
Due to other financial institutions and banks	982,171	2,175,171	1,114,137	-	-	**4,261,643**
Sukuk securities issued	415,511	1,230,616	2,005,929	-	-	**3,636,119**
Subordinated Loans	-	-	-	589,734	-	**589,734**
Money market balances	711,542	-	-	-	-	**711,542**
Current and profit / loss sharing investors’ accounts	27,064,925	1,032,361	9,236	-	38,769	**28,145,291**
Derivative financial instruments	24,233	47,269	98,671	-	-	**170,173**
Employee benefit obligations	-	48,481	-	-	58,424	**106,905**
Income taxes payable	-	36,472	-	-	-	**36,472**
Other liabilities and provisions	-	-	-	-	476,251	**502,024**
Liabilities	**29,172,609**	**4,570,370**	**3,227,973**	**589,734**	**599,217**	**38,159,903**
Net	**(8,302,892)**	**4,241,880**	**6,265,811**	**733,362**	**762,563**	**3,700,724**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Analysis of financial liabilities by contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2016						
Due to other financial institutions and banks	-	54,700	809,116	2,395,212	57,974	**3,317,002**
Subordinated loans	-	16,258	16,258	129,801	1,967,899	**2,130,216**
Sukuk issued	-	56,812	705,605	312,621	4,147,352	**5,222,390**
Money market balances	-	1,258,349	-	-	-	**1,258,349**
Derivative financial instruments (*)	-	7,885,060	1,437,230	4,929	762,972	**10,090,191**
Current accounts	11,994,480	-	-	-	-	**11,994,480**
Profit and loss sharing accounts (**)	-	16,188,142	3,418,151	414,116	1,164	**20,021,573**
Total undiscounted financial liabilities	**11,994,480**	**25,459,321**	**6,386,360**	**3,256,679**	**6,937,361**	**54,034,201**
As at December 31, 2015						
Due to other financial institutions and banks	-	30,680	330,059	3,952,974	688	**4,314,401**
Subordinated loans	-	16,258	16,258	129,800	613,859	**776,176**
Sukuk issued	-	100,812	696,605	302,621	2,998,124	**4,098,162**
Money market balances	-	712,538	-	-	-	**712,538**
Derivative financial instruments (*)	-	4,829,392	1,266,025	193,326	630,582	**6,919,324**
Current accounts	9,400,730	-	-	-	-	**9,400,730**
Profit and loss sharing accounts (**)	-	14,959,304	3,094,227	595,882	95,149	**18,744,561**
Total undiscounted financial liabilities	**9,430,730**	**20,648,984**	**5,403,173**	**5,174,604**	**4,338,402**	**44,965,892**

(*) As such derivatives will be settled in gross amounts, notional amounts have been disclosed.
(**) Customers have choice of demanding their accounts anytime by abandoning profit share income.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2016						
Contingent liabilities and other guarantees(*)	**4,461,265**	**1,087,254**	**2,475,498**	**1,751,369**	**113,831**	**9,889,217**
Commitments	**3,281,611**	**-**	**-**	**-**	**-**	**3,281,611**
Total	**7,742,876**	**1,087,254**	**2,475,498**	**1,751,369**	**113,831**	**13,170,828**
December 31, 2015						
Contingent liabilities and other guarantees	4,755,765	659,715	1,672,231	1,743,849	125,318	8,956,878
Commitments	2,792,914	-	-	-	-	2,792,914
Total	7,548,679	659,715	1,672,231	1,743,849	125,318	11,749,792

(*) Such liabilities may be liquidated and paid by the Group in case of default or the customers.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and precious metals prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.

Market risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2016			December 31, 2015		
Precious metal	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
Gold	-10	**51,250**	-	-10	53,947	-
Gold	+10	**(51,250)**	-	+10	(53,947)	-

Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2016			December 31, 2015		
Currency	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
USD	+10	**14,755**	**11,720**	+10	6,847	6,464
USD	-10	**(14,755)**	**(11,720)**	-10	(6,847)	(6,464)
EUR	+10	**21,166**	**21,166**	+10	5,852	5,852
EUR	-10	**(21,166)**	**(21,166)**	-10	(5,852)	(5,852)

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

The concentrations of assets, liabilities and off balance sheet items:

December 31, 2016

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	378,584	720,778	67,561	19,657	1,186,580
Deposits with other banks and financial institutions	4,702,569	1,088,544	108,929	95,591	5,995,633
Reserve deposits at the Central Bank	370,990	3,927,014	-	1,380,247	5,678,251
Financial assets – available-for-sale	17,327	1,900,932	-	-	1,918,259
Financial assets – held for trading	-	126,015	-	-	126,015
Due from financing activities, net	3,278,547	7,081,879	5	108,137	10,468,568
Minimum finance lease payments receivable, net	504,505	683,959	-	-	1,188,464
Precious metals	-	-	-	802,280	802,280
Other assets	409,892	1,614	139	6	411,651
Construction projects, net	-	-	-	-	-
Joint venture	-	-	-	-	-
Investment properties, net	-	-	-	-	-
Assets held for sale and disposal of group, net	-	-	-	-	-
Property and equipment, net	5,469	89	-	-	5,558
Intangible assets, net	45,138	-	-	-	45,138
Deferred tax assets	-	-	-	-	-
Total assets	**9,713,021**	**15,530,824**	**176,634**	**2,405,918**	**27,826,397**
Due to other financial institutions and banks	95,477	3,118,503	-	-	3,213,980
Sukuk issued	-	3,536,069	638,997	-	4,175,066
Subordinated loans	-	1,981,646	-	-	1,981,646
Money market balances	-	-	-	-	-
Current and profit / loss sharing investors’ accounts	2,937,259	8,545,795	123,059	2,339,522	13,945,635
Other liabilities & provisions	20,933	41,326	5,005	372	67,636
Employee benefit obligations	-	-	-	-	-
Income taxes payable	-	-	-	-	-
Derivative financial instruments	-	216,960	16	-	216,976
Equity	-	-	-	-	-
Total liabilities and equity	**3,053,669**	**17,440,299**	**767,077**	**2,339,894**	**23,600,939**
Net balance sheet position	**6,659,352**	**(1,909,475)**	**(590,443)**	**66,024**	**4,225,458**
Net off-balance sheet position	**(6,447,687)**	**1,761,924**	**86,906**	**446,475**	**(4,152,382)**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

December 31, 2015

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	737,087	507,266	50,029	18,381	1,312,763
Deposits with other banks and financial institutions	1,732,093	2,748,895	105,715	137,965	4,724,668
Reserve deposits at the Central Bank	317,760	3,801,098	-	1,022,437	5,141,295
Financial assets – available-for-sale	-	780,171	-	-	780,171
Financial assets – held for trading	-	77,693	333	-	78,026
Due from financing activities, net	2,334,643	6,515,428	-	154,034	9,004,105
Minimum finance lease payments receivable, net	390,615	447,525	-	-	838,140
Precious metals	-	-	-	471,703	471,703
Other assets	13,844	116,585	3,268	119	133,816
Construction projects, net	-	-	-	-	-
Joint venture	-	-	-	-	-
Investment properties, net	-	-	-	-	-
Assets held for sale and disposal of group, net	-	-	-	-	-
Property and equipment, net	4,173	473	-	-	4,646
Intangible assets, net	41,204	-	-	-	41,204
Deferred tax assets	-	-	-	-	-
Total assets	5,571,419	14,995,135	159,345	1,804,639	22,530,538
Due to other financial institutions and banks	165,498	4,000,516	39,175	-	4,205,189
Sukuk issued	61	2,481,897	551,720	-	3,033,678
Subordinated loans	-	589,734	-	-	589,734
Money market balances	-	-	-	-	-
Current and profit / loss sharing investors' accounts	2,691,742	9,227,971	121,746	1,345,135	13,386,594
Other liabilities & provisions	28,146	98,986	16,881	291	144,304
Employee benefit obligations	-	86	-	-	86
Income taxes payable	-	-	-	-	-
Derivative financial instruments	-	159,744	467	-	160,211
Equity	-	-	-	-	-
Total liabilities and equity	**2,885,447**	**16,558,934**	**729,989**	**1,345,426**	**21,519,796**
Net balance sheet position	**2,685,972**	**(1,563,799)**	**(570,644)**	**459,213**	**1,010,742**
Net off-balance sheet position	**(2,627,455)**	**1,632,270**	**15,622**	**80,257**	**(899,306)**

Pricing risk

The Group issues loans with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Capital adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

As of December 31, 2016 and 2015, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with unconsolidated financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	2016	2015
Tier 1 capital	**3,815,622**	3,162,768
Tier 2 capital	**2,014,393**	659,168
Deductions from capital	**(100,647)**	(33,236)
Total capital	**5,729,368**	3,788,700
Risk weighted assets amount subject to credit, market & operational risk	**31,499,103**	26,620,510

	Actual	**Required**	**Actual**	**Required**
Tier 1 capital ratio	**12.11%**		11.88%	
Total capital ratio	**18.19%**	**12%**	14.23%	12%

30. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31 2016, the fair value of financing and leasing receivables has been estimated as TL 28,358,119 (December 31, 2015 – TL 26,511,156) whereas their carrying amount is TL 28,633,513 (December 31, 2015 – TL 25,852,466).

30. Fair value of financial instruments (continued)

Fair values (continued)

Fair value of borrowings at amortized cost is estimated as TL 11,587,174 (December 31, 2015 – TL 9,337,446), whereas their carrying amount is TL 11,238,826 (December 31, 2015 – TL 9,199,038). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

31. Subsequent events

The Board of Directors of the Bank decided to propose a capital increase from the internal sources amounting to TL 310,000 for the the approval of the ordinary general assembly on the meeting dated 25 January 2017. Banking Regulation and Supervision Agency has provided the necessary approval with the letter dated on 6 March 2017.

The Board of Directors of the Bank decided to increase its capital at KT Bank AG by 30,000,000 Euro resulting its capital to reach from 60,000,000 Euro to 90,000,000 Euro by decision numbered 1672 dated 25 January 2017.

Board of Directors of the Bank decided the early repayment of the funding obtained from Kuwait Finance House on 29 September 2011 in the form of additional capital (defined in the old legislation as "secondary subordinated loan") amounting to USD 200 million with a 10 year maturity by the decision numbered 1672, dated 25 January 2017.

The Bank's subsidiary KT Kira Sertifikaları Varlık Kiralama A.Ş. issued a rent certificate with three month maturity, TL 80,000 nominal and 10.3% borrowing rate on 11 January 2017.

In the Board of Directors Meeting dated 14 February 2017, the Bank made a proposal on the distribution of the statutory profit of TL 541,966 for the year 2016 after deducting the financial obligations by reserving TL 27,098 as first legal reserves, TL 660 as other reserves from development activities support which will be used in capital increase from the retained earnings, TL 51,007 as other reserves of profit from sale of real estates which will be used in capital increase from the retained earnings, TL 4,292 as dividend to the Board members, TL 121,801 as bonus shares to be distributed by proportioning shareholders' stake in share capital, TL 429 as secondary reserves and remaining amount of TL 336,679 as extraordinary legal reserves.