Türk Bankası Limited
and its Subsidiaries

Consolidated Statement and Independent Auditor's Report for the year which ends on 31st of December 2016

October 2th, 2017

This report includes 3 pages of "independent auditor's report" and 64 pages of "consolidated financial statements" and explanatory notes to consolidated financial statements.

Türk Bankası Limited and its Subsidiaries

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Independent Auditor's Report

To the Board of Directors of Türk Bankası Limited

Opinion

We have audited the consolidated balance sheet dated December 31, 2016 of Türk Bankası Limited (the "Bank") and its subsidiaries (collectively referred to as the "Group") and the consolidated financial statements for the year then-ended, comprised of the consolidated profit or loss and other comprehensive income statements, consolidated statement of changes in equity, consolidated cash flow statement, including footnotes summarizing important accounting policies.

In our opinion, attached consolidated financial statements properly and fairly reflect, in all material aspects, the financial position of the Group as of 31 December 2016 as well as its consolidated financial performance and cash flows for the fiscal period then-ended in accordance with the International Financial Reporting Standards ("IFRS").

Evidence of Opinion

Our independent audit has been carried out in accordance with International International Audit Standards ("IAS"). Our responsibilities under these standards have been explained in detail in the section entitled *Responsibilities of Independent Auditor Regarding the Independent Audit of Consolidated Financial Statements.* We hereby declare that we are independent from the Company in accordance with the ethical rules determined by the International Ethics Standards Board for Professionals as well as the ethical rules applicable in Turkey with regard to the independent audit of the consolidated financial statements. Other ethical responsibilities have been met pursuant to the aforementioned rules. We believe that the independent audit evidences that we have obtained throughout the independent audit process constitute an adequate and appropriate basis for the development of our opinion.

Responsibilities of Management and Officers in Charge of Senior Management Regarding Consolidated Financial Statements

The Bank management is responsible for preparing and fairly presenting the consolidated financial statements in accordance with the IFRS and internal audits deemed necessary by the management to ensure that the consolidated financial statements are free from material mistakes due to errors or fraud.

During the preparation of financial statements, the management is responsible for evaluating the ability to continue the Bank's sustainability, to explain the issues related to sustainability when necessary and to employ the principle of business sustainability unless there is an intent or necessity to liquidate the Bank or terminate the business operations.

The officers in charge of senior management is responsible for the supervision of the financial reporting process of the Bank.

Responsibilities of Independent Auditor Regarding the Independent Audit of Consolidated Financial Statements

Our purpose is to achieve reasonable assurance that the consolidated financial statements in general do not contain any error or a fraud-related significant mistake and to prepare an independent auditor report presenting our opinion. Reasonable assurance given as a consequence of an audit carried out in accordance with IAS is a high level assurance, however it does not guarantee that an important mistake can be always detected. The mistakes may result from errors or frauds. If the mistakes, alone or collectively, are expected to have an effect on the financial decisions with regard to the consolidated financial statements to be taken by the users of the financial statements, such mistakes are considered important.

As a requirement of the independent audit carried out pursuant to IAS, we use our professional judgement and maintain our professional scepticism throughout independent audit. We also carry out the following:

• Determining and assessing the risks of "important mistakes" resulting from error or fraud in the consolidated financial statements; designing and implementing auditing procedures meeting these risks and collecting adequate and appropriate auditing evidence that will constitute grounds for our opinion. As fraud may involve the acts of forgery, wilful negligence, misstatement or internal control breach, the risk of failing to detect an important fraud-related mistake is higher than the risk of failing to detect an important error-related mistake.
• The internal control related to the audit is evaluated to design auditing procedures appropriate for the situation, not for providing opinion on the efficiency of the internal control of the Bank.
• It is evaluated whether the accounting policies used by the management are compatible and whether the accounting estimates and related interpretations are reasonable.
• Based on the audit evidence obtained, it is decided whether there is any event that may arise serious doubt about Bank's ability to continue its sustainability or any uncertainty about the circumstances and whether the management employs the principle of the sustainability of the business appropriately. If we reach the conclusion that there is an important uncertainty, we need to highlight the explanations regarding the consolidated financial statements in our report, or in case these explanations are not sufficient, we need to present another opinion that is not a positive one. The conclusions that we reach are based on the audit evidence obtained until the date of the independent auditor's report. In addition, the future events or circumstances may end the sustainability of the Bank.

• The general presentation, form and content of the consolidated financial reports, including explanations, and whether these statements reflect the transactions and events constituting their basis in a way that will ensure a presentation based on fair value.

• In order to provide opinion on consolidated financial statements, sufficient and appropriate audit evidence on the financial information related to the businesses or operation departments within the group are obtained. We are responsible for directing, supervising and executing the auditing of the group. We are solely responsible the audit opinion that we present.

In addition to other issues, we report to the officers in charge of senior management the important audit findings with regard to the planned content and timing of the independent audit, including the deficiencies in the internal control process that we determine during the audit.

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

A member firm of KPMG International Cooperative

Funda Aslanoğlu
Responsible Auditor
SIGNATURE/SEAL

October 2th, 2017
Istanbul, Turkey

Türk Bankası Limited and Its Subsidiaries
Consolidated Balance Sheet
As at 31 December 2016
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	833,132,421	518,850,049
Reserve deposits at central bank	8	59,571,220	53,506,427
Financial assets at fair value through profit or loss	9	1,813,418	392,329
Loans and advances to banks	11	7,388,904	14,573,785
Loans and advances to customers	12	630,501,178	682,942,998
Investment securities	13	134,300,277	144,055,034
Tangible assets	14	16,736,403	18,133,350
Intangible assets	14	4,111,285	5,089,254
Other assets	16	8,757,609	9,128,130
TOTAL ASSETS		**1,696,312,715**	**1,446,671,356**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	17	878,567	1,568,828
Deposits from banks	18	16,531,076	37,305,820
Deposits from customers	19	1,463,815,987	1,193,807,635
Funds provided under repurchase agreements	10	19,239,756	31,709,180
Subordinated loans	20	17,545,000	14,565,000
Other liabilities and provisions	21	14,388,803	11,646,514
Current tax liability	22	2,148,880	3,021,597
Deferred tax liability	22	1,418,576	1,836,456
TOTAL LIABILITIES		**1,535,966,645**	**1,295,461,030**
Share capital	24	77,211,336	73,534,074
Resevers	24	51,853,156	50,685,979
Retained earnings		15,499,718	11,883,176
Total equity attributable to owners of the parent		**144,564,210**	**136,103,229**
Non-controlling interests	24	**15,781,860**	**15,107,097**
Total equity		**160,346,070**	**151,210,326**
Total liabilities and equity		**1,696,312,715**	**1,446,671,356**

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Income
For the Year Ended 31 December 2016
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2016	31 December 2015
Interest income			
Interest income on loans and receivables		49,256,592	52,645,398
Interest income on marketable securities		13,188,115	8,116,284
Interest income on deposits		9,456,334	4,929,220
Interest income on interbank and other money market placements		82,686	32,609
Other interest income		227,389	54,982
Total interest income		72,211,116	65,778,493
Interest expense			
Interest expense on deposits		(27,843,702)	(25,670,957)
Interest expense on other money market		(86,826)	(416,343)
Interest expense on funds borrowed		(945,462)	(786,062)
Other interest expense		(534,440)	(4,103,490)
Total interest expense		(29,410,430)	(30,976,852)
Net interest income		42,800,686	34,801,641
Fees and commission income		11,941,156	12,795,729
Fees and commission expense		(3,248,830)	(2,509,934)
Net fee and commission income		8,692,326	10,285,795
Other operating incomes			
Net trading income		66,354	643,757
Net foreign exchange gain		3,527,598	3,527,553
Other incomes	26	3,569,107	2,604,346
Total operating income		7,163,059	6,775,656
Other operating expenses			
Personnel expenses	27	(23,728,816)	(23,769,581)
Incurred loan losses, net of recoveries	12	(149,125)	(118,541)
Depreciation and amortisation	14	(3,858,281)	(3,722,873)
Taxes other than on income		(781,523)	(348,583)
Other expenses	28	(18,837,508)	(18,272,587)
Total operating expenses		(47,355,253)	(46,232,165)
Profit before income tax		11,300,818	8,150,699
Income tax	22	(2,949,802)	(1,974,181)
Profit for the year		8,351,016	6,176,518

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2016
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2016	31 December 2015
Profit for the year		8,351,016	6,176,518
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		47,082	16,684,016
Net change in fair value of available-for-sale financial assets	24	644,980	450,931
Net change in fair value of available-for-sale financial assets transferred to profit or loss	24	318,533	376,180
Related tax	22	(226,425)	(194,371)
Other comprehensive income/(loss) for the period from continued operations, net of income tax		784,170	17,316,756
Total comprehensive income for the year		9,135,186	23,493,274
Profit attributable to:			
Owners of the Bank		7,698,246	5,394,699
Non-controlling interests		652,770	781,819
Profit for the year		8,351,016	6,176,518
Total comprehensive income attributable to:			
Owners of the Bank		8,460,423	22,692,323
Non-controlling interests		674,763	800,951
Total comprehensive income for the year		9,135,186	23,493,274
Earnings per 100 share on profit for the year (full TL)	23	0.1081	0.0834

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

		Attributable to Owners of the Parent							
		Reserves							
	Note	Share Capital	Available-for-sale reserve, net of tax	Currency translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2015		70,031,964	(286,115)	16,875,273	16,360,197	10,429,075	113,410,394	14,306,146	127,716,540
Profit for the period		--	--	--	--	5,394,699	5,394,699	781,819	6,176,518
Total comprehensive income for the period		--	--	--	--	--	--	--	--
Foreign currency translation differences		--	--	16,664,884	--	--	16,664,884	19,132	16,684,016
Net change in fair value of available-for-sale financial assets	24	--	344,962	--	--	--	344,962	--	344,962
Net change in fair value of available-for-sale financial assets transferred to profit or loss	24	--	287,778	--	--	--	287,778	--	287,778
Total other comprehensive income		--	632,740	16,664,884	--	--	17,297,624	19,132	17,316,756
Total comprehensive income for the period		--	632,740	16,664,884	--	5,394,699	22,692,323	800,951	23,493,274
Capital increase		512	--	--	--	--	512	--	512
Capital increase through bonus shares		3,501,598	--	--	--	(3,501,598)	--	--	--
Transfer to reserves		--	--	--	439,000	(439,000)	--	--	--
Total contributions by and distributions to owners of the parent, recognized directly in equity		3,502,110	--	--	439,000	(3,940,598)	512	--	512
Balances at 31 December 2015		**73,534,074**	**346,625**	**33,540,157**	**16,799,197**	**11,883,176**	**136,103,229**	**15,107,097**	**151,210,326**

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2016(Currency:
Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

		Attributable to Owners of the Parent							
		Reserves							
	Note	Share Capital	Available-for-sale reserve, net of tax	Currency translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2016		73,534,074	346,625	33,540,157	16,799,197	11,883,176	136,103,229	15,107,097	151,210,326
Profit for the period		--	--	--	--	7,698,246	7,698,246	652,770	8,351,016
Total comprehensive income for the period		--	--	--	--	--	--	--	--
Foreign currency translation differences		--	--	25,089	--	--	25,089	21,993	47,082
Net change in fair value of available-for-sale financial assets	24	--	493,410	--	--		493,410	--	493,410
Net change in fair value of available-for-sale financial assets transferred to profit or loss	24	--	243,678	--	--		243,678	--	243,678
Total other comprehensive income		--	737,088	25,089	--	--	762,177	21,993	784,170
Total comprehensive income for the period		--	737,088	25,089		7,698,246	8,460,423	674,763	9,135,186
Capital increase		558	--	--	--	--	558	--	558
Capital increase through bonus shares		3,676,704	--	--	--	(3,676,704)	--	--	--
Transfer to reserves		--	--	--	405,000	(405,000)	--	--	--
									--
Total contributions by and distributions to owners of the parent, recognized directly in equity		3,677,262	--	--	405,000	(4,081,704)	558	--	558
Balances at 31 December 2016		77,211,336	1,083,713	33,565,246	17,204,197	15,499,718	144,564,210	15,781,860	160,346,070

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2016
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2016	31 December 2015
Cash flows from operating activities			
Profit for the year		8,351,016	6,176,518
Adjustments:			
Income taxes expenses	22	2,949,802	1,974,181
Incurred loan losses, net of recoveries	12	149,125	118,541
Depreciation and amortisation	14	3,858,281	3,832,381
Changes in unearned premium provision	26	81,458	226,522
Changes in outstanding claims provision		273	176
Other provision expenses		2,742,290	4,035,927
Net Interest income		42,800,686	37,321,414
Foreign currency translation differences		47,082	16,684,016
		60,980,013	70,369,676
Loans and advances to banks		6,749,980	(2,026,722)
Reserve deposits at central bank		(6,064,794)	(7,663,385)
Financial assets at fair value through profit or loss		(1,421,089)	85,054
Loans and advances to customers		51,471,959	(107,871,556)
Other assets		10,125,279	22,004,934
Deposits from banks		(20,774,744)	15,531,998
Deposits from customers		268,683,183	198,453,246
Funds provided under repurchase agreements		(12,469,679)	(8,828,282)
Other liabilities and provisions		(67,632,679)	(78,187,801)
		289,647,429	101,867,162
Interest received		10,594,859	12,795,729
Other liabilities and provisions		(1,901,906)	(2,509,934)
Paid taxes other than on income		(781,523)	(348,583)
Net cash provided by / (used in) operating activities		297,558,859	111,804,374
Cash flows from investing activities			
Purchases of property and equipment	14	(1,232,375)	(2,638,165)
Purchases of intangible assets	14	(246,239)	(1,131,535)
Net cash provided by / (used in) investing activities		(1,478,614)	(3,769,700)
Cash flows from financing activities			
Proceeds from capital increase		558	512
Net cash provided by / (used in) financing activities		558	512
Effect of foreign exchange rate fluctuations on cash and cash equivalents		17,915,793	29,848,995
Net increase in cash and cash equivalents		313,996,596	137,884,180
Cash and cash equivalents at the beginning of the year		518,435,496	380,551,316
Cash and cash equivalents at the end of the year	7	**832,432,092**	**518,435,496**

Footnotes to the consolidated financial statements

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

1. General information about the Bank

(a) Short history

Türk Bankası Limited (the "Bank") was founded on July 1, 1901 by tradesmen and merchants led by Mufti Ziyai Efendi. The name of the Bank at the date of its foundation was "İslam İddihar Sandığı" (*Islamic Savings Fund*), with a function to create resources for the social economy, New managers were employed in the scope of modernization efforts initiated in 1938. Despite the Second World War, the modern management understanding was further improved, and its capital was doubled in 1943, and the name of the Bank was changed to Lefkoşa Türk Bankası Ltd. It opened foreign branches in Turkey and in UK between the years 1974 and 1983, and as of 1991, it converted each of its Turkish and British branches into independent local banks of the countries where they were located, and constituted the Türk Bankası Group.

The Türk Bankası Group consists of 4 individual banks located in the Turkish Republic of Northern Cyprus ("TRNC"), Turkey and UK and the affiliates of these banks, and operates only in the finance sector. With a paid-up capital of TRY 77,211,336, Türk Bankası Ltd is a private bank of the Group acting in TRNC, providing services to its customers with 20 Branches and 26 ATMs.

Information about consolidated partnerships

Turkish Bank (UK) Ltd

Turkish Bank (UK) Ltd is an affiliate of Türk Bankası Ltd founded in TRNC in 1901. The group started operating in UK with its Harringay Branch in 1974, and established Turkish Bank (UK) Ltd in 1991 with its Harringay, Dalston and Elephant and Castle Branches. Turkish Bank (UK) Ltd is currently focused on retail banking with its Borough Central Branch, Harringay, Dalston, Edmonton, Palmers Green and Mayfair (Private Banking) Branches, and also offers commercial banking services.

Türk Sigorta Ltd

Türk Sigorta Ltd started its activity as a separate entity under the name Saray Sigorta Ltd in 1996. Currently serving with the name Türk Sigorta Ltd, the entity assumes risks for potential losses by issuing policies against risks that the assets of its customers may face. It offers services through the branches of Türk Bankası and agents of Türk Sigorta Ltd.

(b) Shareholding Structure

As of December 31, 2016, the paid-up capital is TRY 77,211,336 (December 31, 2015: TRY 73,534,074). The shareholding structure of the Bank is as follows:

Trade Name	Share Amounts	Share Ratios (%)	Paid-up Shares
Tolunay Ltd	28,498,704	36.91	28,498,704
T.Özyol Yatırımları Ltd	28,058,600	36.24	28,058,600
Özyol Holding AŞ	9,466,110	12.26	9,466,110
Pektan Şti. Ltd	3,922,336	5.08	3,922,336
Saray Kredi Şti. Ltd	3,860,567	5.00	3,860,567
Other	3,405,019	4.41	3,405,019
Paid-in Capital	**77,211,336**	**100.00**	**77,211,336**

2. Basics of presentation

(a) Declaration of conformity

The attached consolidated financial statements of the Bank and its affiliates (collectively the "Group") have been prepared in accordance with the International Financial Reporting Standards.

The attached consolidated financial statements were approved by the Bank Board of Directors on October 2, 2017. The General Meeting and certain regulatory institutions are entitled to amend the legal financial statements.

(b) Valuation principles

The attached consolidated financial statements have been prepared according to the inflation-adjusted historical cost principle until 31 December 2016, which is accepted as the ending date of high inflationary period, except for financial assets reflected at fair value through profit/loss, derivative financial assets and liabilities held-for-trading, available-for-sale financial assets, and equity securities, which are measured at fair value where fair values can be reliably determined.

(c) Functional and reporting currency

The attached consolidated financial statements have been presented in TRY, the functional currency of the Bank and Türk Sigorta Ltd. Unless otherwise stated, financial assets expressed in TRY are shown as figures rounded up to the nearest "integer". Among the consolidated affiliated, Turkish Bank (UK) Ltd’s functional currency is British Pound ("GBP"), and its financial statements have been included in the consolidated financial statements in TRY which is the reporting currency.

(d) Accounting estimates and interpretations

Preparation of consolidated financial statements as per IFRS requires making certain estimates and interpretations which may affect the amounts of reported assets and liabilities, incomes and expenses, and application of accounting principles. Estimates and underlying assumptions are based on past experience, other various factors that are believed to be reasonable, and results which constitute a basis for deciding about the values of assets and liabilities that are not clearly seen in other resources. Actual results may differ from the current estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected of such revisions.

Below are information about assumptions and estimation uncertainties with serious risks that may cause material changes in the next accounting period as well as information about critical decisions which will have the most impact on the amounts presented in the attached financial statements during the application of accounting policies. These explanations appear to support the comments on financial risk management.

Impairment
Assets recognized at amortized cost have been evaluated for impairment as described in Note 3 (i) - *Impairment of financial assets*.

Special provisions within the total reserves allocated for impairment of financial assets, and the relevant financial assets are individually evaluated, and the present value of expected cash flows are based on the best estimate of the management. In the estimation of cash flows, the management decides about the financial status of the debtor and the net realizable value of the security.

2. Basics of presentation (*continued*)

(d) Accounting estimates and interpretations (*continued*)

Elements taken into account for the collective provision within the total provisions;
• Regularly distributed debt groups which are not individually important,
• Groups of assets which are individually important, but have not been impaired.

The collective provision for regularly distributed debt groups are found by using the "default rate" method, or in the case of smaller portfolios about which sufficient information is not available, by using statistical methods such as a formula based on historical loss rate experience. The "default rate" method estimates the amount of loss using the past default data in statistical analysis. The estimate of loss based on past data is reviewed in order to make sure that it reflects the economic positions and the product mix at the report date.

The collective provision for asset groups that are individually important but have not been impaired covers loan losses in the loan and advance portfolios, and held-to-maturity investments with similar credit risk characteristics involving impaired loans and advances, and impaired held-to-maturity investments which cannot be identified. While evaluating the provisions for collective losses, the management takes into account factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required reserve, assumptions are made to define modeling methods for the losses and to determine the required input parameters according to past experience and current economic conditions. The accuracy of provisions is contingent upon future cash flow estimates of counter party special provisions, model assumptions and parameters.

Equity investments have been evaluated for impairment as described in Note 3 *(\)-- Impairment of financial assets*.

Evaluating whether public debt investments have been impaired or not may be a complex issue. When performing such evaluation, the Group takes the following factors into account:

• Market evaluation of the creditworthiness reflected on bond returns
• Evaluation of creditworthiness by rating agencies
• Adequacy of access to the country's capital markets for the issue of new debt
• Possibility of restructuring of debt through voluntary or mandatory debt relief which results in losses for the holder

Fair value

Determination of fair values of financial assets and liabilities which do not have observable market prices requires using valuation techniques. Because fair value is less objective for financial assets that are rarely traded and have a lower price transparency, a decision has to be made subject to liquidity, concentration, uncertainty of market factors, and other factors affecting pricing assumptions and tools.

Fair value measurements have been addressed in the Group's accounting policy Note 3 (i) Measurement.

The Group has calculated fair values of the inputs that were used while performing measurement according to the following hierarchy:

• Level 1: Quoted (non-adjusted) prices in active markets for identical assets.
• Level 2: Valuation methods based on observable inputs and obtained directly from prices, or indirectly from prices. This category includes instruments that are valued using quoted prices in active markets for similar instruments, or quoted prices for identical or similar instruments which are considered to be less active in the market, or all key inputs that are derived directly/indirectly from observable market data by correlation or other means.

2. Basics of presentation (*continued*)

(d) Accounting estimates and interpretations (*continued*)

Fair value (continued)

• Level 3: Valuation methods that use unobservable key inputs. This category includes valuation methods that are not based on observable inputs, and unobservable inputs that have an important effect on the valuation of an instrument. This category includes instruments that are valued using quoted prices that reflect important unobservable changes and assumptions for identical instruments.

The fair values of financial assets and liabilities that are traded on an active market are contingent upon quoted market prices or price quotations. The Group finds fair values of all other financial instruments using valuation methods.

Compared with similar instruments for which observable market prices are available, valuation methods cover net present value and discounted cash flow models. Assumptions and inputs used in valuation methods include interest rates that are risk free and comparable, credit commission rates and other variables used in estimating discount rates, bond and stock prices, foreign exchange rates, stock and stock index prices, expected price fluctuations and correlations. The purpose of valuation methods is to determine the fair value of a financial instrument that reflects its price at the reporting date.

The Group employs valuation methods that use only observable market data and are broadly employed to determine the fair values of financial instruments that are widespread and easier such as interest rates and currency swap which reduce the requirement for the management's decisions and estimations. Observable prices and model inputs for simple over-the-counter derivatives such as debts and stocks, currency swap derivatives, interest swaps are generally available in the markets. Availability of observable market prices and model inputs reduce the need for the management's decision-making and estimation, and reduce the uncertainty in determining fair value. Accessibility of observable market prices changes subject to the product and market, and is open to change subject to specific events and general situation in the financial markets.

As described in Note 4 (d) *Fair value indication*, the fair value of financial instruments shown in the statement have been analyzed as of the end of reporting period according to fair value measurement ranking.

Classification of financial assets and liabilities

The Group's accounting policies specify different accounting categories in certain cases regarding accounts in which assets and liabilities are to be initially recognized.

• When classifying financial assets as "held-for-trading", the Group has decided that assets and liabilities held-for-trading comply with the definition as described in Note 3 (i).
• When determining fair value of financial assets and liabilities through profit or loss, the Group has decided that the Group's criteria specified in Note 3(i) are appropriate.
• When classifying financial assets held to maturity, the Group has decided to hold the assets until maturity as required in Note 3 (I).

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

3. Key accounting policies

(a) Consolidation principles

The accounting policies presented below have been applied consistently in all periods presented comparatively in the attached consolidated financial statements of the Group.

The attached consolidated financial statements reflect the accounts of the Bank which is the Parent Company, its subsidiaries and affiliates as shown below. The financial statements of the companies in the scope of consolidation have been prepared as of the same date as that of the consolidated financial statements attached. The information on the companies that are consolidated are given in Note 30.

Subsidiaries

Subsidiaries are companies that are controlled by the Group. Control refers to the power of the Group to play an effective role in decisions regarding the financial and operational policies of a business in order to derive benefit from the operation of the business. While evaluating control, potential voting rights of redeemable or convertible bonds are also taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from such date control is formed until such date control expires. The financial statements of subsidiaries have been prepared using the same accounting policies for similar transactions and events.

Mutually deleted transactions in consolidation

Intra-group balances and intra-group transactions and unrealized earnings and expenses arising from intra-group transactions are mutually deleted in the preparation of consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies

Transactions are recorded in the functional currencies. A transaction effected in a foreign currency is recorded at the exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated to the functional currency at the exchange rates effective at the reporting date, and translation differences arising from the conversion have been reflected to the attached consolidation comprehensive income statement as foreign exchange gain or loss.

The official buying exchange rates used by the bank in foreign currency operations are as follows:

	Euro/TRY	USD / TL	GBP/TRY
December 31, 2016	3.712	3.509	4.311
December 31, 2015	3.177	2.913	4.310

Foreign operations

The functional currency of Turkish Bank (UK), the Group's subsidiary abroad is GBP, and the financial statements of the relevant subsidiaries are translated to TRY which is the reporting currency for consolidation purposes in accordance with the principles specified in the following paragraphs.

• The assets and liabilities of foreign operations are converted to TRY at the exchange rates effective at the end of the reporting period.
• The incomes and expenses of foreign operations are converted to TRY at exchange rates at the transaction date.

3. Key accounting policies *(continued*)

(b) Foreign currency (*continued*)

Foreign operations (*continued*)

• Conversion differences arising from conversion of the financial statements of net investments abroad into the reporting currency of these consolidated financial statements for consolidation purposes are accounted for under other comprehensive income as foreign currency conversion differences. In case a foreign investment is sold in part or in whole, the relevant amounts in the foreign exchange conversion differences are transferred to the consolidated comprehensive income statement as part of sales profit or loss.

(c) Interest incomes and expenses

Interest incomes and expenses, except overdue loans, are reflected in the comprehensive income statement using the effective interest method. Effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial asset or liability to its carrying amount (where applicable, for shorter periods). In the calculation of the effective interest rate, the Group estimates cash flows taking into account all contractual conditions of the relevant financial instrument without considering future credit losses.

Effective interest rate calculation covers discounts and premiums which are inseparable parts of effective interest, and fees and commissions paid or received, and transaction costs. Transaction costs are additional costs that are related to the acquisition, issue or disposal of a financial asset or liability.

In the consolidated comprehensive income statement, interest incomes and expenses include;

• Interests calculated at amortized costs of financial assets and liabilities that are calculated using the effective interest rate method;

• Interests calculated using the effective interest rate method on securities classified as available-for-sale financial assets;

• Interests earned from financial assets reflected at fair value through profit or loss until the same are disposed of.

(d) Fees and commissions

Fee and commission incomes and expenses which are inseparable parts of the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other commissions and fees such as account maintenance fee, investment management fee, sales commission, placement and syndication fees and insurance commissions (also see the explanation in accounting policy (s)) are recognized as the relevant services are rendered in accordance with the accrual principle.

If a loan commitment is not expected to result in delinquency, loan commitment fees are recognized linearly throughout the period of commitment.

In fact, other fees and commissions comprised of transaction and service fees are expensed at such date the service is provided.

3. Key accounting policies *(continued*)

(e) Net capital market transaction profit

Net capital market transaction profit includes earnings and losses arising from disposal of financial assets reflected at fair value through profit or loss and available-for-sale financial assets, and earnings and losses arising from derivatives held-for-trading.

(f) Dividend

Dividend incomes are recognized when the right to receive relevant dividend occurs. Dividend incomes are shown within other operating income in the attached consolidated financial statements.

(g) Lease payments made

Payments made for operating leases are recorded in the consolidated comprehensive income statement as expenses at equal amounts using the straight line method throughout the lease term.

Minimum lease payments made under financial leasing consist of two parts including financial expenses and amount deductible from existing debt. Financial costs arising from leasing are spread over the periods to constitute a fixed interest rate throughout the lease term.

(h) Income taxes

Income tax expense comprises current year income tax and deferred tax expenses. The current year income tax and deferred tax expenses are accounted for under profit or loss to the extent they are related to elements directly accounted for under equity or other comprehensive income.

Corporation tax

TRNC

Türk Bankası Ltd and Türk Sigorta Ltd pay 10% corporation tax over their taxable income, and 15% income tax over the balance that remains after deducting Corporation tax. Total tax liability is 23.5% (December 31, 2015: 23.5%) This rate is applied to the tax base which is determined by adding non-deductible expenses to the commercial income of the corporation pursuant to the tax laws and deducting the exclusions and discounts set forth in the tax laws.

Subsidiaries established abroad

Turkish Bank (UK) Ltd pays 20.25% corporation tax over its taxable income (December 31, 2015: 20.25%)

Deferred taxes

Deferred tax assets or liabilities are calculated over the “temporary differences” between the amounts of assets and liabilities shown in the consolidated financial statements and the amounts used in calculating the legal tax base, which will be subject to tax or tax discounts in the future. According to the tax legislation, differences which do not affect the financial or commercial profit that arises at the acquisition date of assets or liabilities are excluded from such calculation.

Deferred tax assets and deferred tax liabilities are shown in the consolidated financial statements in net terms only if the Group has a legal right to offset its current tax assets against its current tax obligations and the deferred tax asset and liability is related to the income tax of the same taxable entity.

3. Key accounting policies *(continued)*

(i) Financial Instruments

Recognition

The Group recognizes its loans, advances and deposits at such dates they arise. Purchases and sales of financial assets are recognized at such transaction dates when the Group has promised to purchase or sell such asset. All other financial assets and liabilities are recognized at the date of the commercial transaction when the Group becomes a party to the contractual conditions of the relevant financial asset or liability.

When a financial asset or liability is initially recognized, it is accounted for taking into account its fair value, or in the case of a financial asset or liability reflected at fair value, the transaction cost which can be directly related to acquisition of the relevant financial asset or commitment of the financial liability.

Classification

Financial assets reflected at fair value through profit or loss are comprised of held-for-trading financial assets and derivative financial instruments which the Group has essentially acquired in order to sell at a near date. All held-for-trading derivative financial instruments that are in a net receivable position are shown under the account of financial assets reflected at fair value through profit or loss; whereas held-for-trading derivative financial instruments that are in a net payable position are shown under the account of other obligations and provisions as financial liabilities reflected at fair value through profit or loss.

Held-to-maturity investments are financial assets which the Group has the intention and ability to hold until maturity and which cover fixed or determinable payments and have a fixed maturity. This class covers certain debt securities.

Loans and receivables are non-derivative financial assets which have fixed or determinable payments, which are not listed in any active market and which the Group has not the intention to sell immediately or in near future. Loans and receivables arise from receivables which occur as a result of provision of money, services and goods to debtors by the Group and which the Group does not have the intention to trade. Loans and receivables consist of loans and advances to banks and customers.

When the Group purchases a financial asset and becomes, at the same time, a party to a contract to sell that asset (or a similar asset) at a fixed price in the future (“reverse repo"), the transaction is recorded as a loan and receivable and the asset in question is not included in the Group’s consolidated financial statements. Such kind of financial assets are also shown in the consolidated balance-sheet.

Available-for-sale financial assets are financial assets other than loans and receivables to banks and customers, held-to-maturity investments, and financial assets held for trading.

Financial liabilities are liabilities based on a contract that requires the provision of cash or another financial asset to another entity.

3. Key accounting policies *(continued*)

(i) Financial Instruments (*continued*)

Measurement

When a financial asset or liability is initially recognized, it is accounted for taking into account its fair value, or in the case of a financial asset or liability reflected at fair value, the transaction cost which can be directly related to acquisition of the relevant financial asset or commitment of the financial liability.

After recognition, financial assets reflected at fair value through profit or loss and all available-for-sale financial assets are measured at fair value. However, if there is no active price in the market for such financial assets or the fair value cannot be reliably measured, these are accounted for at their acquisition cost which also includes their transaction costs, after deducting provisions for impairment, if any.

Financial liabilities that are not held for trading, loans and receivables and held-to-maturity investments are accounted for at their amortized cost calculated as per the effective interest method, after deducting provisions for impairment, if any. The amortized cost of a financial asset or liability is calculated by adding to or deducting from the initial acquisition cost measured at initial recognition the total amortization amount which is calculated using the effective interest method over the difference between the initial recognition value of the relevant financial asset or liability and its value at maturity and deducting principal payments and provisions for impairment if any.

Fair value measurement principles

Fair values of financial instruments are regarded as the quoted market prices without taking into account the transaction costs at the reporting date. If any quoted market price is not available, the fair value of a financial instrument is estimated using the pricing models or discounted cash flows. In cases where the discounted cash flows technique is used; estimated future cash flow depends on the best estimates to be made by the management, and the discount rate depends on the rates of similar instruments traded in qualified markets which are identical in terms of interest, maturity and similar other conditions. In cases where the pricing models are used, the data to be used in fair value estimation depend on the market data at the reporting date.

The fair values of derivative financial instruments that are not traded in the market are found by estimating the amounts due to or payable by the Group if the contracts expire at the reporting date, taking also into account creditworthiness of the counter party and the current market conditions.

Gains and losses in future valuations

Gains and losses that arise due to changes in fair values of financial assets are accounted for in the capital market transaction profit account in the consolidated comprehensive income statement.

3. Key accounting policies *(continued*)

(i) Financial Instruments (*continued*)

Gains and losses in future valuations (*continued*)

Gains or losses arising from changes in the fair values of available-for-sale financial assets are shown under other comprehensive income as "available-for-sale financial assets valuation differences". Total gains or losses arising in other comprehensive income accounts due to disposal of the relevant financial assets are transferred to the profit/loss accounts. Interests derived from available-for-sale financial assets, held-to-maturity investments and financial assets reflected at fair value through profit or loss are accounted for as interest income in the consolidated financial income statement.

Derecognition

Financial assets are derecognized in case the Group loses its control over the contractual rights in the relevant assets. This situation occurs when these rights materialize, expire or are delivered. Available-for-sale financial assets and financial assets reflected at fair value through profit or loss are derecognized at such date when the Group makes a commitment to sell such assets, and the collections to be made in return for payments by the purchaser in relation thereto are recognized at the same date.

Profits or losses due to disposal of assets are determined according to the basic cost method.

Held-to-maturity financial investments and loans and receivables are derecognized at such date when the same are transferred by the Group to the counter-party.

The Group derecognizes a financial debt only if the contractual liability is fulfilled, cancelled or prescribes.

Netting

Financial assets and liabilities are offset and are shown on a net basis in the consolidated financial statements only if the Group has the right of offset and power of sanction and the Group has the intention to collect/pay the related financial asset and liability on a net basis, or the right to settle the relevant financial asset and liability concurrently.

Incomes and expenses are shown on a net basis only when accounting standards permit so, or for gains and losses arising from similar transactions of the Group such as trading.

Special instruments

Cash and cash equivalents: Cash and cash equivalents that constitute a basis for the preparation of consolidated cash flow statement include cash, foreign currency, cheques, deposits held at TRNC Central Bank and Bank of England, receivables from monetary markets, and short-term loans and receivables to banks with a maturity less than 3 months.

Investments: Investments held to derive short term profits are classified as financial instruments held-for-trading; investments which the Group has the intention and ability to hold until maturity are classified as held-to-maturity financial assets.

3. Key accounting policies *(continued*)

(i) Financial Instruments (*continued*)

Special instruments (*continued*)

Loans and advances to banks and customers: Loans and advances supplied to banks and customers by the Group are classified as loans and receivables, and are shown at estimated collectible amounts which remain after deducting provisions made.

Banks and customer deposits and loans obtained: Banks and customer deposits and loans obtained are the Group's debt sources. Banks and customer deposits and loans obtained are recognized at acquisition cost which also includes the transaction cost, and thereafter, measured at amortized cost according to the effective interest rate method.

Impairment of financial assets

Assets held at amortized cost

In respect of recognition of impairment losses under income items, the Group decides whether there are observable data which show a decrease in the measurable estimated data in the debt portfolio and individual debts.

Objective findings showing that financial assets and asset groups for which observable data are available according to the Group are about the following events;

i) important financial distress suffered by the issuer or debtor;
ii) a breach of contract such as delays in payment of interests and principal which exceed 90 days;
iii) concessions given by the Group for the financial distress that the debtor suffers due to economic and legal reasons;
iv) bankruptcy or likelihood of the debtor to initiate other financial structuring;
v) loss of the active market for the financial asset due to a financial difficulty;
vi) in relation to a financial asset group with a measurable decrease in expected future cash flows although a decrease cannot be determined individually in any financial asset within the group:

• Adverse changes in the solvency of the debtor
• National or local economic conditions that are related to delays of payment relating to assets within the group;

All debts with principal and interest payments past due by 90 days are considered to be impaired, and are individually evaluated.

If there are objective findings that impairment losses have occurred in liabilities and receivables held at amortized cost or in held-to-maturity investments, the amount of loss is measured by calculating the difference between the carrying value of the asset and the estimated recoverable amount of the present value of expected cash flows discounted using the effective interest rate. The estimated recoverable amount of securitized financial assets is measured over the amount at which the mortgage is confiscated, irrespective of whether confiscation of mortgage is likely or not. The carrying value of the asset is reduced by using a provision account. The amount of loss is accounted for under income items.

The Group first evaluates objective findings showing whether individually important financial assets or individually or collectively unimportant financial assets have suffered impairment or not. If there is no objective finding showing that an individually evaluated financial asset is impaired, the asset is included in the group of financial assets which have the same credit risk characteristics. This group is evaluated collectively for impairment. Assets that are evaluated individually for impairment are not subject to a collective evaluation.

3. Key accounting policies *(continued*)

(i) Financial Instruments (*continued*)

Impairment of financial assets (*continued*)

The present value calculation of expected future cash flows of securitized financial assets reflects the cash flows of the amount at which the mortgage is confiscated, irrespective of whether confiscation of mortgage is likely or not. Financial assets are grouped according to the same credit risk characteristics in order to evaluate impairment collectively. These characteristics are related to expected future cash flows of this type of asset groups which show the capacity of a debtor to make all payments according to the contractual conditions.

The future cash flows of a financial asset group which is collectively evaluated for impairment are estimated based on the contractual cash flows of the assets in the Group and the historical lost experience of assets showing similar credit risk characteristics within the Group. To reduce differences between actual losses and estimated losses, the Group regularly reviews the methodologies and assumptions used in estimating future cash flows.

Assets held at cost

If an unlisted stock or a derivative financial instrument linked to an unlisted stock which is not held at fair value since fair value cannot be reliably measured is subject to impairment, the amount of loss is measured as the difference between the carrying value of the asset the present value of the recoverable amount of the asset.

Assets held at fair value

In each reporting period, the Group evaluates the objective findings showing whether a financial asset or a group of financial assets has been subject to impairment or not. Available-for-sale investments are subject to impairment if there is a substantial and continuous decrease in fair values which drop below the cost. If an available-for-sale asset has been impaired, the difference between the cost (net value of principal payment and depreciation) the actual fair value is transferred from equity to income.

(j) Repurchasing agreements

The Group makes sales/purchase agreements in order to repurchase/resell financial assets at a fixed price at a certain future date. Financial assets purchased with a commitment to sell them back in the future are not included in the financial statements. Amounts that are collected as a result of sale of financial instruments under a repurchase commitment are shown in the attached consolidated financial statements under the account of funds derived from repo transactions.

Incomes and expenses arising from sales and repurchase agreements are recognized according to the accrual principal throughout the transaction, and are shown under "interest incomes" and "interest expenses" accounts.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

3. Key accounting policies *(continued*)

(k) Tangible assets

The costs of tangible assets acquired prior to January 1, 2007 have been adjusted according to effects of inflation pursuant to law no. 66/1999 " Law on Reevaluation of the Capital and Financial Assets of the Businesses" that is specified in the article 12 of the Banking Law for the period from acquisition date of assets until December 31, 2006 which is regarded as the ending date of the hyper inflationary period.

Prior to December 31, 2006, inflation adjustment was performed over the new value which was found by subtracting, if any, exchange rate differences, financing expenses and revaluation increases from the cost of the tangible asset which was to be adjusted for the first time. Tangible assets purchased after December 31, 2006 are recognized at cost.

Gains and losses due to disposal of tangible assets are calculated as the difference between the net sales income and the net carrying value of the relevant tangible asset, and is reflected in the consolidated comprehensive income statement. The expenses incurred for ordinary maintenance and repair of tangible assets are recognized as an expense. For tangible assets, the normal depreciation method is used.

Rates and time periods prescribed as estimated economic lives that are used in the depreciation of tangible assets are as follows:

Tangible Assets	Estimated financial Life (Years)	Depreciation Ratio (%):
Buildings	33	3
Office machinery, furniture, fixtures and	5-10	10-20
Assets obtained via financial leasing	4-5	20-25

The cost amounts of tangible assets are subject to depreciation using straight line depreciation method based on expected useful life. Expected useful life, residual value and depreciation method are reviewed every reporting period for potential effects of changes in estimations, and if there is any change in estimations, they are recognized prospectively.

(l) Intangible assets

The Group's intangible assets are comprised of software programs. Intangible assets are recognized at cost.

Costs of intangible assets; the costs of intangible assets acquired prior to January 1, 2007 have been adjusted according to effects of inflation pursuant to law number 66/1999 for the period from acquisition date of assets until December 31, 2006 which is regarded as the ending date of the hyper inflationary period. For intangible assets, the normal depreciation method is used. Economic lives of intangible assets change between 3 – 15 years, and parallel to that, depreciation rates change between 33.33% and 6.66%.

3. Key accounting policies *(continued*)

(m) Impairment of non-financial assets

The Group evaluates whether there is any indication that a non-financial asset has been subject to impairment as of each reporting date, except deferred tax assets. If there is any such indication for an asset or group of assets, the recoverable amount of the relevant asset is estimated.

A provision for impairment is set aside if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group which can generate cash flows independently of other assets and groups. Impairment losses are accounted for in the consolidated comprehensive income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost of sales. Value-in-use is determined by discounting expected future cash flows to the present value using a pretax discount rate which reflects the risks inherent to the relevant asset and the time value of money.

In each reporting period, it is evaluated that there is no indication that impairment provisions set aside for other assets in the previous years have been reduced or disappeared. Impairment is reversed with a reverse entry in case of a change in the estimates used in the determination of recoverable amount. Provision for impairment may be reversed with a reverse entry unless the carrying value exceeds the off-balance sheet value, net of depreciation, which will be determined in case no impairment exists.

(n) Provisions

If there is any current liability arising from past events, the fulfillment of the liability is possible and the amount of such liability can be reliably estimated, a provision is accounted for. Provisions are determined by discounting expected future cash flows to the present value using a pretax rate which reflects the risks inherent to the liability and the time value of money.

To be able to account for a provision for restructuring, the Group must have a detailed and formal plan, and implementation of restructuring must be started or announced. No provision is set aside for operational expenses to occur in the future.

3. Key accounting policies *(continued*)

(o) Employee benefits

Provision for severance pay

According to the labor law effective in the countries where the Bank and its subsidiaries have existence, a severance pay obligation does not arise against the employer if the employer terminates the employee's contract or the employee becomes entitled to retire.

Other employee benefits

The Group has allocated a provision in the attached consolidated financial statements for undiscounted employee benefits which are expected to be paid for services rendered by the employees throughout the accounting period.

(p) Assets held in custody

Assets other than cash deposits which the Group holds on behalf of its customers and public institutions in its capacity as attorney or agent have not been shown in the attached consolidated financial statement since they are not the assets of the Group.

(r) Insurance contracts

The Group signs insurance contracts with customers that contain insurance risks through its partner operating in the insurance sector. Contracts by which the Company assumes an important insurance risk by agreeing to indemnify the policyholder if a pre-defined future event that causes a negative effect on the policyholder (an event secured by insurance) occurs are classified as insurance contracts. Insurance risk covers all risks other than financial risk.

Insurance and investment contracts issued/signed by our subsidiary operating in the insurance sector are recognized as follows:

Earned premiums: Premiums derived from insurance contracts are recognized proportionally throughout the term of the policy for such amount that remains after the premiums assigned to reinsurers are deducted. Such portion of the accrued premiums for insurance contracts in effect that extend over to the next accounting period or periods based on the number of days and on a gross basis without applying any commission or any other discount are recorded as unearned premiums reserve. Premiums are shown without deducting received or given commissions and deferred production costs, the relevant taxes or fees are the net amounts reflected.

Unearned premium reserve: Unearned premium reserve consists of such portion of the accrued premiums for insurance contracts in effect that extend over to the next accounting period or periods based on the number of days and on a gross basis without applying any commission or any other discount. Unearned premium reserve is set aside for all insurance contracts other than insurance contracts for which actuarial reserves are set aside. Unearned premium reserve is shown under "other liabilities and provisions" in the attached consolidated balance-sheet.

3. Key accounting policies *(continued*)

(r) Insurance contracts (*continued*)

Outstanding losses and claims reserve: Outstanding losses and claims reserves are set aside for indemnification amounts that have been incurred, calculated, but not actually paid in previous accounting periods or the current accounting period, or if such an amount could not be calculated, for estimated amounts, and for relevant file expenses. Also, incurred but not reported losses and claims are taken into account as described below. The outstanding losses and claims reserve is shown under other liabilities and provisions in such amount which remains after offsetting the amounts which may be recovered from reinsurers. Forecasts should be made in order to determine absolute amounts for losses reported to the Group as of the reporting date, and incurred but not reported losses and claims. Determining final losses definitely can take a significant period of time. The primary method adopted by the management to estimate incurred but not reported losses and claims is to use past loss development trends to determine future loss development trends ("Actuarial Chain Ladder Method") In each reporting period, loss estimates pertaining to past years are reevaluated in terms of sufficiency, and necessary changes are reflected to the reserves. In addition, the Group reevaluates reported losses and claims on a file basis as of each reporting period. Outstanding losses and claims reserves are not discounted. Unearned losses and claims reserve is shown under "other liabilities and provisions" in the attached consolidated balance-sheet.

Recourse, salvage and similar incomes: After the Group pays for a claim, it obtains a release (a bank receipt showing that the payment has been made) from the insured, and assesses its recourse receivables.

Deferred production costs and deferred commission incomes: Commissions which are paid to agents for the production of insurance policies and renewal of existing policies and which vary accordingly, and other production-related expenses are capitalized as deferred production cost.

Deferred production costs are amortized using the straight-line depreciation method throughout the term of the policy. Deferred production costs are shown within other assets in the attached consolidated balance-sheet.

Commissions obtained in return for premiums assigned to reinsurers are also deferred and are amortized throughout the policy term using the straight-line depreciation method. Deferred commission income is shown under "other liabilities and provisions" in the attached consolidated balance-sheet.

(s) Earning per share

Earnings per share calculated over continuing operations shown in the attached consolidated comprehensive income statement have been calculated by dividing net profit for the period by the number of average weighted number of shares within the period.

(t) Post-reporting events

Post-reporting events (events requiring adjustment) that provide information about the Group's position at the end of the reporting period are reflected in the consolidated financial statements. Important events which occur after the reporting date and do not require adjustment are stated in the footnotes.

3. Key accounting policies *(continued*)

(u) Segment reporting

An operating segment is a component that engages in business activities from which the Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components, whose operating results are reviewed regularly by the Board of Directors (as the decision maker), and whose performance can be measured, and for which discrete financial information is available.

(v) Provisions, conditional assets and liabilities

If there is any current liability arising from past events, the fulfillment of the liability is possible and the amount of such liability can be reliably estimated, a provision is accounted for. Provisions are calculated according to the best estimation made by the Group management for the expense to be incurred to fulfill the obligation as of the end of reporting period, and discounted to reduce it to its current value when the effect is significant. When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Group, it is considered that a “contingent” liability exists and it is disclosed in the related notes to the financial statements.

Contingent assets are those that will be confirmed based on the future occurrence of one or more than one probable event that arises from previous events and is beyond the control of the Group. Group does not reflect the contingent assets in the financial statements, however it continuously evaluate its contingent assets in order to correctly reflect the developments in the financial statements. Where it is almost certain that the economic benefit will be owned by the Group, the related asset and its income are included in the financial statements of the period when the change occurs; and where the economic benefit becomes possible, the contingent asset in question is shown in the footnotes of the financial statements.

(y) Standards that have been issued, but have not become effective and put into practice prematurely

New standards, interpretations, and modifications which have been published as of the date of approval of the consolidated financial statements, but have not become effective for the current reporting period and have not been put into early implementation by the Group are as follows. Unless otherwise specified, the Group will make necessary amendments to affect its consolidated financial statements and footnotes after the effective date of the new standards and interpretations.

IFRS 9 Financial Instruments

IFRS 9 which was published in July 2014 will replace the guideline in IAS 39 Financial Instruments: It changes the current direction of the Recognition and Measurement standard. This version includes updated practices related to the classification and measurement of financial instruments, including the new expected credit loss model for the calculation of impairment of financial assets, and new general hedging accounting requirements, including also the guidance issued in earlier versions. Applications related to the recognition and derecognition of financial instruments contained in IAS 39 are also transferred to the new IFRS 9 standard by IFRS 9. IFRS 9 shall apply to annual reporting periods beginning on and after January 1, 2018, and earlier application is permitted. The Group considers the effects of the standard on its financial condition and performance.

3. Key accounting policies *(continued*)

(y) Standards that have been issued, but have not become effective and put into practice prematurely (*continued*)

IFRS 15 Contracts with Customers

This new standard replaces the guides contained in International Financial Reporting Standards ("IFRS") and Generally Accepted Accounting Principles of the United States, and introduces a control-based new model for contracts with customers. This new standard introduces new guidance as to recognition of revenue, classification of goods and services contained in the contract and recognition throughout the period, and stipulates that revenue is measured in an amount that reflects the consideration to which the entity expects to be entitled rather than fair value.

This amendment applies to annual reporting periods beginning on or after 1 January 2018 and earlier application is permitted. The Group considers the effects of the standard on its financial condition and performance.

IFRS 16 Leasing Transactions

New IFRS 16 “Leasing Transactions” standard has been published in January 13th, 2016 by IASB. This standard supersedes and replaces the existing IAS 17 Leasing Transactions, IFRS Comment 4 Determining whether a Contract involves a Leasing Transaction or not and IAS Interpretation 15 Operation Leasing - Incentives standards and interpretations that govern leases and also results in amendments to IAS 40 Real Estates Held For Investment. IFRS 16 eliminates the dual accounting model which is the current practice for leaseholders, where the financial leasing transactions are recognized and operational leasing transactions are derecognized. Instead, a single balance sheet-based accounting model is introduced similar to the current leasing accounting. Accounting for lessors are performed in a way similar to the current practices. This amendment applies to annual reporting periods beginning on or after 1 January 2019 and earlier application is permitted for the businesses using TFRS 15 Revenue from Customer Contracts standard. The Group considers the effects of the standard on its financial condition and performance.

IFRIC 22 - Transactions in Foreign Currencies and Advance Payment Amounts

IFRIC 22 has been issued to remove any doubts regarding the foreign exchange rate to be used for the advances given or obtained by IASB in foreign currencies. This Interpretation applies to assets or liabilities in foreign currencies that are accounted for as non-monetary prepaid expenses or income received as advances by the entities. The date of transaction will be the date of first recognition of a liability related to prepayment or deferred income with regards to determining what dated foreign currency is to be used. If there is more than one advance amount received in advance or given in cash, a separate transaction date is required to be specified for each advance amount. The effective date of IFRIC 22 is the reporting period beginning after January 1st, 2018, but early implementation is also permitted. The Bank considers the effects of the change on its financial condition and performance.

3. Key accounting policies *(continued*)

(y) Standards that have been issued, but have not become effective and put into practice prematurely (*continued*)

IAS 7 *Amendments in Cash Flow Statements* - Disclosure Initiative

As a part of the broad disclosure initiative of the IASB, changes have been made to the IAS 7 Cash Flow Tables standard to improve the presentation and disclosure of financial statements. With this amendment, it will be possible for the users of the financial statements to evaluate the cash-based and non cash-based changes that occur in the financing activities as a result of the liabilities. This amendment applies to annual reporting periods beginning on or after 1 January 2017 and earlier application is permitted. The Bank considers the effects of the change on its financial condition and performance.

IAS 12 *Amendments in Income Taxes* - Recognition of Deferred Tax assets for Unrealized Assets

The amendments clarify whether a deductible temporary difference exists or not, that the asset is just subject to the comparison of net book value and the tax base at the end of the reporting period, and that the net book value of the respective asset will not be affected by possible future changes or expected recovery method. This amendment applies to annual reporting periods beginning on or after 1 January 2017 and earlier application is permitted. The Bank considers the effects of the change on its financial condition and performance.

IFRS 2 Amendments in Share-Based Payments standard - Classification and Measurement of Share-Based Payment Transactions

IASB has made amendments to IFRS 2 Amendments in Share-Based Payments standard to increase consistency in accounting for share-based payments and to eliminate a number of uncertainties. With this amendment, the measurement of share-based payments made in cash, the classification of share based payments realized by netting withholdings, and the accounting of changes in share-based payments that are converted from payments in cash to the ones that are paid using equity-based instruments, are clarified. Thus, the same approach is adopted in the measurement of share-based payments made in cash, which is also used to measure stock-based payments based on equity. Share-based payments, performed by netting withholdings, will be recognized as payments made by providing financial instruments based on equity if certain conditions are met. This amendment applies to annual reporting periods beginning on or after 1 January 2018 and earlier application is permitted. The Bank considers the effects of the change on its financial condition and performance.

IAS 40 Transfers of Real Estates Held For Investment

Amendments are applied to IAS 40 Real Estates Held for Investment standard by IASB to remove the uncertainty regarding the events that provide evidence of transfers from Real estates held for investment group to other asset groups and from other asset groups to the Real estates held for investment group. With this amendment, it is clarified that the intention of the management regarding the amendment to the use of the asset does not constitute evidence that the purpose of the use of the asset has changed. Therefore, when a business decides to dispose a property held for investment purposes without developing it, the immovable property is continued to be treated as an investment property until it is excluded from the financial statement (removed from the financial statements) and is not reclassified as a stock. Similarly, when the business initiates the restructuring of its existing property held for investment purposes to continue to be used in the same manner in the future, that respective immovable property will continue to be classified as an investment property and will not be classified as a property used by the owner during the restructuring period.

3. Key accounting policies *(continued*)

(y) Standards that have been issued, but have not become effective and put into practice prematurely (*continued*)

IAS 40 Transfers of Real Estates Held For Investment *(Continued)*

This interpretation applies to annual fiscal periods beginning on or after 1 January 2018 and earlier application is permitted. The Bank considers the effects of the change on its financial condition and performance.

IFRS Improvements

'Annual Improvements in IFRS- 2014-2016 Period' which has been published for the standards in effect are presented below. The amendments are effective as from 1 January 2018. The subject amendment is not expected to have a significant effect on the Bank's financial condition or performance.

IFRS Annual Improvements - 2014-2016 Period

IFRS 1 "First-time Adoption of International Financial Reporting Standards":

Explanations regarding financial instruments for those who will apply IFRSs for the first time, benefits provided to employees and elimination of short-term exemptions provided for consolidation of investment businesses under the annual improvements of 2012-2014.

IFRS 12 Explanations regarding the Investments in the Other Enterprises

Regarding the clarification of the scope of IFRS 12, the addition that the disclosure of the summary of financial information required in accordance with IFRS 12 is not required in the event that the investments within the subsidiary, partnership or associate of a business are classified as held for sale (included in the asset group to be disposed).

IAS 28 "Investments in the Affiliates and Subsidiaries"

If the investments in the affiliates and subsidiaries are owned directly or indirectly by entities such as venture capital company, investment funds, securities or investment-purpose insurance funds, enabling the implementation of the fair value method in accordance with IFRS 9 for the investments in the affiliates and subsidiaries.

4. Financial risk management

(a) Introduction and general information

This note provides information about the risks that the Group is exposed to, the policies and procedures adopted by the Group to manage and measure each of these risks listed below, and the objectives and capital management policies of the Group. The Group is exposed to the following risks resulting from use of the financial instruments:

• credit risk
• liquidity risk
• market risk
• operational Risk:

Risk management structure

The creation and supervision of a risk management structure is the responsibility of the Board of Directors. The Board of Directors monitors the efficiency of the risk management system via its Member Responsible for Internal Systems For this reason, the Bank's Risk Management Unit executes risk management activities which function independently of administrative activities, and reports to the Board of Directors.

The Group's risk management policies have been created to define the Group's potential risks, to determine risk limits and controls, and to track compliance with the limits determined. Risk management policies and systems are regularly reviewed to reflect the changes in the market conditions and the products and services offered.

Risks are measured according to local and international regulations, and internationally recognized methods which are suitable for the Bank's structure, policies and procedures.

(b) Credit risk

Credit risk is defined as the possibility of failure of a borrower or counter party to fulfill its obligations partially or wholly in accordance with the contractual terms agreed upon. Credit risk does not only cover counter party risks arising from loans and notes payable, but also credit risks arising from all transactions that are deemed as credits in the Banking Code of TRNC in a comprehensive manner.

Credit risk management

The Risk Management unit manages credit risk by:

• Determining credit risk policies in coordination with other units of the Bank;

• Determining and tracking concentration limits on a sectoral, geographical and loan type basis;

• Presenting credit risk management reports that include loan portfolio distribution (borrower, sector, geographical region), credit quality (non-performing loans, credit risk degrees and concentrations as well as scenario analysis, stress tests and other analysis to the Board of Directors and senior management.

• Performing studies to create credit risk advance measurement methods.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY)

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Credit risk exposure

	Loans and advances to customers		**Other assets exposed to credit risk (including financial assets other than loans and advances to customers)**	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Individually impaired loans	4,127,218	3,772,154	57,332	58,741
Special provisions set aside for individually impaired credits	(3,696,118)	(3,336,844)	(57,332)	(58,741)
Book value	**431,100**	**435,310**	-	-
Overdue but not impaired loans	280,199	43,221		
Restructured loans	—	—	-	-
Book value	**280,199**	**43,221**	-	-
Not overdue and have not impaired	598,268,093	680,145,336		
Restructured loans	31,952,886	2,754,441	-	-
Book value	**630,220,979**	**682,899,777**	-	
Collective impairment	(431,100)	(435,310)	-	-
Total book value	**630,501,178**	**682,942,998**	-	-

There is no provision for impairment set aside by the Group for loans and advances to banks and investment securities as of December 31, 2015 and December 31, 2016.

Sectoral distribution of loans and advances to customers

	December 31, 2016		**December 31, 2015**	
	Amount	**%**	**Amount**	**%**
Consumer loans	350,595,800	55.61	281,140,292	41.17
Personal finance loans	*337,556,128*	53.54	*267,517,492*	*39.17*
Home loans	*7,546,816*	1.20	*10,231,593*	*1.50*
Overdraft account	*5,320,214*	0.84	*2,919,292*	*0.43*
Vehicle loans	*172,642*	0.03	*471,915*	*0.07*
Financial institutions	98,043,223	15.55	230,939,470	33.82
Production	15,879,833	2.52	25,601,064	3.75
Wholesale and retail trading	47,929,432	7.60	16,518,837	2.42
Hotel, food, beverage services	46,465,185	7.37	27,034,202	3.96
Transportation and communication	18,943,704	3.00	23,719,848	3.47
Construction	6,038,810	0.96	6,794,028	0.99
Credit cards	3,759,580	0.60	3,770,036	0.55
Agriculture and animal husbandry	641.998	0.10	520.689	0.08
Health and social services	110.130	0.02	83.006	0.01
Other	42,093,483	6.67	66,821,526	9.78
Total loans and advances to customers	**630,501,178**	**100.00**	**682,942,998**	**100.00**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group may face the risk not to collect all principal and interest payments under the conditions set forth in the loan agreements. These loans have been rated from 3 to 5 in the Group's internal credit rating system.

Overdue but not impaired loans

Overdue but not impaired loans are loans and receivables whose principal and interest payment is overdue, but for which the Group believes it is not appropriate to set aside a provision, considering the guarantees and sureties held by it and the collections made in the past relating to such receivables.

Restructured loans

Restructured loans are loans that are restructured due to temporary deterioration in the financial condition of the borrower and upon which the Group and the borrower have reached an agreement.

Special provisions set aside for impaired loans and receivables

The Group sets aside special provisions for estimated losses which the Group may face due to individually impaired loans and receivables within its own loan portfolio.

Derecognition policy

Consolidated subsidiaries derecognize a loan receivable (and if any, special provisions set aside for that loan) after forming an opinion that the receivables related to that loan are not collectible after completing all legal procedures and determining the absolute loss. In forming that opinion, attention is paid to the fact that substantial changes have occurred in the borrower's financial condition preventing the borrower to fulfill its obligation or that the collateral taken is not enough to cover all the risks exposed. The Bank does not have a policy relating to derecognition of loans.

The following table shows gross and net (net of impairment) amounts of impaired assets according to risk ratings.

	Loans and advances to customers		**Other assets**	
December 31, 2016	**Gross**	**Net**	**Gross (*)**	**Net (*)**
3rd Group: Impaired	155.556	-	-	-
4th Group: Impaired	724,880	-	-	-
5th Group: Impaired	3,246,782	431,100	57,332	-
Total	**4,127,218**	**431,100**	**57,332**	

	Loans and advances to customers		**Other assets**	
December 31, 2015	**Gross**	**Net**	**Gross (*)**	**Net (*)**
3rd Group: Impaired	73,066	-	-	-
4th Group: Impaired	136,955		405	
5th Group: Impaired	3,562,133	435,310	58,336	-
Total	**3,772,154**	**435,310**	**58,741**	**-**

(*) In the above table, receivables from impaired insurance activities are shown in "Group 4" and "Group 5".

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Collateral policy

The collaterals held by the Group for loans disbursed to its customers consist of mortgages on property, other bonds and guarantees on assets. Estimated fair values of collaterals taken depend on the value of the relevant asset during disbursement of the loan, and generally, a further evaluation is not performed until the loan is individually subject to impairment.

The distribution of cash loans and advances and non-cash loans to customers according to the collaterals held by the Group is as follows:

Cash loans	**December 31, 2016**	**December 31, 2015**
Secured loans:	588,500,996	597,911,871
Real estate secured loans	*374,527,260*	*199,786,386*
Deposit secured loans	*40,884,353*	*176,380,615*
Other guarantees (pledges on assets, corporate and personal guarantees, bonds)	*130,927,313*	*163,703,115*
Guarantees issued by financial institutions	*32,269,874*	*40,195,497*
Cash secured loans	*9,892,196*	*17,846,258*
Unsecured loans	42,000,182	85,031,127
Total loans and advances to customers	**630,501,178**	**682,942,998**

Non-Cash Loans	**December 31, 2016**	**December 31, 2015**
Secured loans:	16,688,784	18,579,732
Guarantees issued by financial institutions	*9,751,504*	*7,714,832*
Cash secured loans	*160,710*	*5,746,975*
Other guarantees (pledges on assets, corporate and personal guarantees, bonds)	*3,914,044*	*3,006,904*
Real estate secured loans	*2,862,526*	*2,111,021*
Unsecured loans	180.649	136.856
Total non-Cash Loans	**16,869,433**	**18,716,588**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4th Financial risk management (*continued*)

(b) Credit risk (*continued*)

Sectoral and regional concentration of impaired loans and receivables

The Bank and its subsidiaries monitor credit risk concentration on a sectoral and regional basis. An analysis of the sectoral and regional concentration of impaired loans and receivables, financial leasing and factoring receivables is presented below.

	December 31, 2016		**December 31, 2015**	
Sectoral concentration	**Amount**	**%**	**Amount**	**%**
Consumer loans	2,878,941	68.80	2,911,412	76.00
Service sector	62.814	0.22	24.138	0.63
Agriculture and animal husbandry	21.288	0.08	20.093	0.52
Durable consumer goods	10.149	1.50	16.861	0.44
Construction	9.270	0.51	6.532	0.17
Food	3.161	0.24	3.161	0.08
Other	1,198,927	28.65	848.698	22.16
Total impaired loans and receivables	**4,184,550**	**100.00**	**3,830,895**	**100.00**

	December 31, 2016		**December 31, 2015**	
Regional concentration	**Amount**	**%**	**Amount**	**%**
TRNC	3,330,972	79.60	2,710,294	70.75
United Kingdom	853.578	20.40	1,120,600	29.25
Total impaired loans and receivables	**4,184,550**	**100.00**	**3,830,894**	**100.00**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY)

4. Financial risk management (*continued*)

Offsetting financial assets and liabilities

The following tables contain explanations regarding the following financial assets and financial liabilities:

• Offset in the balance-sheet of the Group; or
• Covering financial instruments which are subject to applicable general netting agreements or similar agreements, whether the instrument has been offset or not in the balance-sheet.

Similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. If financial instruments such as loans and deposits have not been offset in the balance-sheets, they are not shown in the following tables.

The Groups takes and gives cash collaterals for derivatives transactions.

Financial assets and liabilities are subject to netting, applicable master netting arrangements and similar agreements.

					Amounts not offset in the balance-sheet		
	Types of Financial Assets	Gross amounts of financial assets	Gross amounts of financial liabilities recognized on a net basis in the financial statement	Net amounts of financial assets presented in the financial statement	Financial instruments (including non-cash collateral)	Cash collaterals received	Amount
December 31, 2016	Derivatives - Derivative financial assets held-for-trading	1,813,418		1,813,418		1,813,418	
December 31, 2015	Derivatives - Derivative financial assets held-for-trading	392,329		392,329		392,329	

					Amounts not offset in the balance-sheet		
	Types of Financial Liabilities	Gross amounts of financial assets	Gross amounts of financial liabilities recognized on a net basis in the balance-sheet	Net amounts of financial assets presented in the financial statement	Financial instruments (including non-cash collateral)	Cash collaterals given	Amount
December 31, 2016	Derivatives - Derivative financial liabilities held-for-trading	878.567		878.567		878.567	
December 31, 2015	Derivatives - Derivative financial liabilities held-for-trading	1,568,828	-	1,568,828	-	1,568,828	-

4. Financial risk management (*continued*)

(c) Liquidity risk

Liquidity risk is the likelihood that the Group experiences difficulty in meeting its obligations arising from its financial debts.

Liquidity risk management

The Group's approach to liquidity risk management is to have sufficient liquidity to fulfill its obligations in a timely manner without causing unacceptable losses and damaging the Group's reputation both under normal and stressful conditions.

The Bank's Treasury Unit obtains information from other units about the liquidity profile of financial assets and liabilities held by such units, and details of estimated cash flows likely to arise from future transactions. In the light of this information, the Treasury Unit creates a short-term liquid asset portfolio mainly comprised of short-term investment securities, inter-bank money market overnight receivables, short-term investments in domestic and foreign banks in order to make sure that the Group has sufficient liquidity as a whole. Liquidity needs that occur in the units due to short-term fluctuations are satisfied by short-term loans obtained from the Treasury Units, and their long-term structural liquidity requirements are satisfied by long term funding.

The daily liquidity position is monitored, and liquidity stress tests are performed regularly using different scenarios to cover both normal and extraordinary market conditions. All liquidity procedures are subject to supervision and approval of the Asset-Liabilities Committee ("ALCO"). Daily reports include the Bank's liquidity condition.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(c) Liquidity risk (*continued*)

Liquidity risk exposure

Breakdown of monetary assets and liabilities according to remaining maturities:

December 31, 2016	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Book value
Cash and cash equivalents	440,414,279	392,718,142	--	-	-	-	833,132,421
Financial assets reflected at fair value through profit or loss		1,813,418	--	--	--	--	1,813,418
Loans and advances to banks		--	--	7,388,904	--	--	7,388,904
Loans and advances to customers		103,481,816	47,640,764	223,323,311	179,217,322	25,612,991	630,501,178
Investment securities	45,355	60,636,841	7,771,617	23,016,058	12,608,013	30,222,393	134,300,277
Other assets	170,789,530	3,918,632	2,421,366	276,040	387,989	--	177,793,557
Total assets	662,474,138	562,568,849	57,833,747	254,004,313	192,213,324	55,835,384	1,784,929,755
Derivative financial liabilities held-for-trading	--	878.567	--	--	--	--	878.567
Bank deposits	16,531,076	--	--	--	--	--	16,531,076
Customer deposits	384,180,988	817,582,786	188,553,963	73,498,250	--	--	1,463,815,987
Funds derived from repurchasing agreements (Repo transactions)		19,239,756					19,239,756
Subordinated loans	-	--	--	--	17,545,000	--	17,545,000
Taxes payable	-	--	2,148,880	--	--	--	2,148,880
Other liabilities and provisions	168,810,210	6,949,261	2,150,782	1,576,583	--	--	179,486,836
Total liabilities	569,522,274		192,853,625	75,074,833	17,545,000	-	1,699,646,102
Liquidity Deficit	92,951,864	(282,081,521)	(135,019,878)	178,929,480	174,668,324	55,835,384	85,283,653

December 31, 2015	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Book value
Cash and cash equivalents	160,082,155	353,682,295	5,085,599	--	--	--	518,850,049
Financial assets reflected at fair value through profit or loss				392,329			392,329
Loans and advances to banks	--	--	--	14,573,785	--	--	14,573,785
Loans and advances to customers	36,393,991	110,161,267	48,035,399	104,080,719	322,233,059	62,038,563	682,942,998
Investment securities	42.836	24,539,793	3,875,104	26,351,106	65,669,014	23,577,181	144,055,034
Other assets	56,534,283	2,185,081	2,186,553	4,528,730	--	--	65,434,647
Total assets	253,053,265	490,568,436	59,182,655	149,926,669	387,902,073	85,615,744	1,426,248,842
Derivative financial liabilities held-for-trading	--	155.160	--	1,413,668	--	--	1,568,828
Bank deposits	247.836	37,057,984	--	--	--	--	37,305,820
Customer deposits	369,390,822	474,734,215	214,320,565	117,040,223	18,321,810	--	1,193,807,635
Funds derived from repurchasing agreements (Repo transactions)	--	31,709,180	--	--	--	--	31,709,180
Subordinated loans	--	--	--	--	14,565,000	--	14,565,000
Taxes payable	--	--	1,849,277	1,172,320	--	--	3,021,597
Other liabilities and provisions	11,268,458	3,024,802	525,837	418,335	-	-	15,237,432
Total liabilities	380,907,116	546,681,341	216,695,679	120,044,546	32,886,810	--	1,297,215,492
Liquidity Deficit	(127,853,851)	(56,112,905)	(157,513,024)	29,882,123	355,015,263	85,615,744	129,033,350

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(c) Liquidity risk (*continued*)

Distribution of contractual financial liabilities by remaining maturity

December 31, 2016	Book value	Gross nominal amounts	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above
Derivative financial liabilities held-for-trading	878.567	878.567		878.567				
Bank deposits	16,531,076	16,548,896	16,539,986	8.910	--	--	--	--
Customer deposits	1,463,815,987	1,463,833,807	384,189,899	522,243,363	374,178,724	149,074,390	34,147,431	--
Funds from repo transactions	19,239,756	19,257,576	19,248,666	8.910				
Subordinated liabilities	17,545,000	17,545,000					17,545,000	
Other liabilities and provisions	8,225,388	8,225,388			5,199,066	1,668,357	1,357,965	
Total	1,526,235,774	1,526,289,234	419,978,551	523,139,750	379,377,790	150,742,747	53,050,396	-
Non-Cash Loans	16,869,433	16,869,433	485,433	771,863	7,548,946	6,551,000	1,262,191	250,000
December 31, 2015	Book value	Gross nominal amounts	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above
Derivative financial liabilities held-for-trading	1,568,828	1,568,828		155.160		1,413,668		
Bank deposits	37,305,820	37,305,820	247.836	37,057,984	--	--	--	--
Customer deposits	1,193,807,635	1,208,610,661	369,390,822	489,537,241	214,320,565	117,040,223	18,321,810	--
Funds from repo transactions	31,709,180	31,709,180		31,709,180				
Subordinated liabilities	14,565,000	14,565,000	--	--	--	--	14,565,000	--
Total	1,278,956,463	1,293,759,489	369,638,658	558,459,565	214,320,565	118,453,891	32,886,810	--
Non-Cash Loans	18,716,588	18,716,588	573.496	494.578	560.757	9,647,956	6,197,583	1,242,218

The table above shows undiscounted cash outflows according to potential nearest contract maturity of the Group's financial liabilities. The expected cash flows of the Group from these liabilities may significantly change according to this analysis.

(d) Market Risk

Market risk is the possibility that changes in market prices such as interest rates, stock prices, exchange rates and credit spreads affect the Group's income or the value of the financial instrument held by it. The purpose of market risk management is to control market risk amount within acceptable parameters by optimizing risk profitability.

Market risk management

The Group separately monitors market risks that trading and non-trading portfolios are exposed to. Trading portfolios are mainly held by the Treasury Unit, and include also positions that occur as a result of market making activity.

Below are the highest, lowest and average values of amounts exposed to market risks as of December 31, 2016 and December 31, 2015, which are calculated in accordance with the non-consolidated financial statements prepared for TRNC Central Bank reporting purposes in the framework of the Communiqué on Procedures and Principles Regarding Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette dated 9 August 2007 and number 144.

		December 31, 2016			December 31, 2015	
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	1,872,000	2,064,000	1,689,000	2,066,000	2,236,000	1,901,000
Stock risk	--	--	--	747,000	1,151,000	
Exchange risk	290.000	362,000	246,000	263,000	300,000	238,000
Option risk	--	--	--	--	--	--
Counterparty risk	343,239,000	362,936,000	321,889,000	371,566,000	387,298,000	358,311,000
Market risk exposure	4,317,512,500	4,567,025,000	4,047,800,000	4,683,025,000	4,887,312,500	4,505,625,000

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4th Financial risk management (*continued*)

(d) Market risk (*continued*)

Interest rate risk exposure – non-trading portfolios

The primary risk which non-trading portfolios are exposed to is fluctuation in future cash flows as a result of changes in market risk rates, and loss due to reduction in the fair value of financial assets. Interest rate risk management is conducted by monitoring interest rate interval and determining pre-approved limits for re-pricing time bands. The monitoring of these limits is undertaken by ALCO and supported by Risk Management. The interest rate position for the Group's non-trading portfolios is as follows:

December 31, 2016	Up to 1 month	1-3 month	3-12 month	1-5 years	5 years and above	Non Interest Bearing	Book value
Cash and cash equivalents	796,829,897	11,195,957				25,106,567	833,132,421
Loans and advances to banks	--	--	7,388,904	--	--	--	7,388,904
Loans and advances to customers	331,305,506	59,850,269	77,287,270	134,365,400	28,546,311	(853,578)	630,501,178
Investment securities	79,695,713	24,809,414	28,348,720			1,446,430	134,300,277
Other assets	169,264,963	2,405,471	765,942	202,753	--	38,708,468	211,347,597
Total assets	1,377,096,079	98,261,111	113,790,836	134,568,153	28,546,311	64,407,887	1,816,670,377
Derivative financial liabilities held-for-trading	--	--	878.567	--	--	--	878.567
Bank deposits	--	16,399,046	--	--	--	132,030	16,531,076
Customer deposits	747,887,770	376,604,094	149,074,390	34,147,431	--	156,102,302	1,463,815,987
Funds from repo transactions	19,239,756						19,239,756
Subordinated loans	--	2,148,880	17,545,000	--	--	--	17,545,000
Corporation tax payable							2,148,880
Other liabilities and provisions	--	--	--	--	--	178,761,380	178,761,380
Total liabilities	767,127,526	395,152,020	167,497,957	34,147,431	-	334,995,712	1,698,920,646
Net	609,968,553	(296,890,909)	(53,707,121)	100,420,722	28,546,311	(270,587,825)	117,749,731

December 31, 2015	Up to 1 month	1-3 month	3-12 month	1-5 years	5 years and above	Non Interest Bearing	Book value
Cash and cash equivalents	495,877,732	5,085,599				17,886,718	518,850,049
Loans and advances to banks	--	--	14,573,785	--	--	--	14,573,785
Loans and advances to customers	292,947,923	336,019,773	47,842,172	5,012,530		1,120,600	682,942,998
Investment securities	83,635,298	21,912,857	35,395,323	2,021,390	1,047,330	42.836	144,055,034
Other assets	53,506,427	-	--	-	-	151,598,476	205,104,903
Total assets	925,967,380	363,018,229	97,811,280	7,033,920	1,047,330	170,648,630	1,565,526,769
Derivative financial liabilities held-for-trading	155.160	--	1,413,668	--	--	--	1,568,828
Bank deposits	12,000,000	25,057,984	--	--	--	247.836	37,305,820
Customer deposits	875,386,344	146,894,925	117,040,223	18,321,810	--	36,164,333	1,193,807,635
Funds from repo transactions	31,709,180	--	--	--	--	--	31,709,180
Subordinated loans	--	--	14,565,000	--	--	--	14,565,000
Corporation tax payable	--	1,849,277	1,172,320	--	--	--	3,021,597
Other liabilities and provisions	--	--	--	--	--	172,179,187	172,179,187
Total liabilities	919,250,684	173,802,186	134,191,211	18,321,810	—	208,591,356	1,454,157,247
Net	6,716,696	189,216,043	(36,379,931)	(11,287,890)	1,047,330	(37,942,726)	111,369,522

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Interest rate risk measurement frequency

The economic value differences arising from interest rate fluctuations as of December 31, 2016 and December 31, 2015 pursuant to the Regulation regarding measurement and evaluation of interest rate risk arising from banking accounts by the standard shock method are presented in the following table:

Currency – December 31, 2016	Applied Shock (+/- x base points)	Other Earnings / Losses	Gains/Equities-Losses /Equities
Turkish Lira	500	1,631,744	2.34%
	(400)	(1,305,395)	(1.86%)
US Dollar	200	264.593	0.38%
	(200)	(264,593)	(0.38%)
British Pound	200	(2,505,252)	(3.58%)
	(200)	2,505,252	3.58%
Euro	200	1,738,828	2.49%
	(200)	(1,738,828)	(2.49%)
Total for Negative Shocks		1,129,913	1.63%
Total for Positive Shocks		(803.564)	(1.15%)

Currency – December 31, 15	Applied Shock (+/- x base points)	Other Earnings / Losses	Gains/Equities-Losses /Equities
Turkish Lira	500	1,016,399	1.51%
	(400)	(813.119)	(1.21%)
US Dollar	200	1,392,190	2.07%
	(200)	(1,392,190)	(2.07%)
British Pound	200	(3,536,722)	(5.25%)
	(200)	3,536,722	5.25%
Euro	200	1,861,110	2.76%
	(200)	(1,861,110)	(2.76%)
Total for Negative Shocks	--	732.977	1.09%
Total for Positive Shocks	-	(529.697)	(0.79%)

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Exchange risk

The Group is exposed to exchange risk due to transactions in foreign currencies its investments in its foreign operations.

Exchange risk management

The risk policy has been built on transactions within the limits, and it is essential to keep the foreign currency position in balance.

In order to make the tables below comparable, TRY equivalents of the relevant currencies have been shown.

December 31, 2016	US Dollar	Euro	British Pound	Other currencies	Total
Cash and cash equivalents	158,502,988	166,967,449	411,657,515	114.040	737,241,992
Financial assets reflected at fair value through profit or loss	--	1,813,418	--	--	1,813,418
Loans and advances to banks					
Loans and advances to customers	70,993,179	31,382,647	367,776,795	--	470,152,621
Investment securities	39,787,967	27,464,563	14,385,906	--	81,638,436
Other assets	11,044,594	7,132,243	94,606,283	--	112,783,120
Total monetary assets in foreign currencies	280,328,728	234,760,320	888,426,499	114.040	1,403,629,587
Bank deposits	3,096,514	8,512,964	4,875,527		16,485,005
Customer deposits	251,618,062	129,839,739	839,549,555	1,489	1,221,008,845
Subordinated loans	17,545,000	--	--	--	17,545,000
Other liabilities	3,026,477	1,964,318	77,935,337	104	82,926,236
Total monetary liabilities in foreign currencies	275,286,053	140,317,021	922,360,419	1,593	1,337,965,086
Net on-balance sheet position	5,042,675	94,443,299	(33,933,920)	112,447	65,664,501
Net off-balance sheet position	(4,468,255)	(92,456,594)	97,859,700		934,851
Net position	574,420	1,986,705	63,925,780	112,447	66,599,352

December 31, 2015	US Dollar	Euro	British Pound	Other currencies	Total
Cash and cash equivalents	70,781,110	114,978,187	101,496,647	83,671	287,339,615
Financial assets reflected at fair value through profit or loss		392,329			392,329
Loans and advances to banks	14,533,320	--	--	--	14,533,320
Loans and advances to customers	133,197,940	76,502,007	61,689,369	--	271,389,316
Investment securities	37,062,786	29,501,880	13,899,000	--	80,463,666
Other assets	119,204,692	62,747,151	93,082,578	-	275,034,421
Total monetary assets in foreign currencies	374,779,848	284,121,554	270,167,594	83,671	929,152,667
Bank deposits	8,598,551	3,311,045	114,927		12,024,523
Customer deposits	150,773,238	105,650,036	351,648,918	17,860	608,090,052
Subordinated loans	14,565,000	--	--	--	14,565,000
Other liabilities and provisions	1,943,495	1,956,639	68,956,020	834	72,856,988
Total monetary liabilities in foreign currencies	175,880,284	110,917,720	420,719,865	18,694	707,536,563
Net on-balance sheet position	198,899,564	173,203,834	(150,552,271)	64,977	221,616,104
Net off-balance sheet position	(60,138,444)	(98,301,895)	150,419,000	--	(8,021,339)
Net position	138,761,120	74,901,939	(133,271)	64,977	213,594,765

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Exchange risk exposure

The following table shows the effect which a depreciation of 10 percent in TRY against the following currencies will make on the consolidated comprehensive income statement and profit/loss (except tax effect) for the years ended December 31, 2016 and December 31, 2015.

	December 31, 2016		December 31, 2015	
	Profit / loss	Total comprehensive income statement	Profit / loss	Total comprehensive income statement
US Dollar	(57.442)	(57.442)	(13,876,112)	(13,876,112)
Euro	(198,671)	(198,671)	(7,490,194)	(7,490,194)
British Pound	(6,392,578)	(6,392,578)	13,327	13,327
Other currencies	(11,245)	(11,245)	(6.498)	(6.498)
Total, net	(6,659,936)	(6,659,936)	(21,359,477)	(21,359,477)

The following table shows the effect which an appreciation of 10 percent in TRY against the following currencies will make on the consolidated comprehensive income statement and profit/loss (except tax effect) for the years ended December 31, 2016 and December 31, 2015.

	December 31, 2016		December 31, 2015	
	Profit / loss	Total comprehensive income statement	Profit / loss	Total comprehensive income statement
US Dollar	57.442	57.442	13,876,112	13,876,112
Euro	198,671	198,671	7,490,194	7,490,194
British Pound	6,392,578	6,392,578	(13,327)	(13,327)
Other currencies	11.245	11.245	6.498	6.498
Total, net	6,659,936	6,659,936	21,359,477	21,359,477

In this analysis, it is assumed that all other variables, in particular interest rates, remain fixed.

Fair value indication

The estimated fair values of financial instruments are determined using current market information and appropriate valuation methodologies where applicable. When determining estimated fair values of financial instruments, it is necessary to interpret market data. When determining estimated fair values of financial instruments, the management uses the available market data, however, considers that such market data might not reflect the fair value, taking the present conditions into consideration.

The Bank management estimates that the fair values of financial assets and liabilities other than loans and advances to customers and held-to-maturity financial assets and that are measured at amortized cost are not significantly different than their carrying values. These financial assets and liabilities include loan and advances to banks, funds derived from repo transactions, bank deposits and other contractual short-term assets and liabilities. The Bank management believes that the carrying values of these financial assets and liabilities approximately reflect their fair values taking into account the time to re-pricing particularly in a manner to reflect market conditions.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

The fair value measurement classifications of financial assets and liabilities measured at fair value are as follows:

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets reflected at fair value through profit / loss: *Derivative financial assets held-for-trading*		*1,813,418*		*1,813,418*
Financial assets held-for-investment purposes *Debt securities*	*2,570,000*	*15,306,244*		*17,876,244*
Total financial assets	2,570,000	17,119,662	-	19,689,662
Financial liabilities held-for-trading *Derivative financial liabilities held-for-trading*	--	*878,567*	--	*878,567*
Total financial liabilities		878.567		878.567

December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets reflected at fair value through profit / loss: *Derivative financial assets held-for-trading*		*392,329*		*392,329*
Financial assets held-for-investment purposes *Debt securities*	*8,441,980*	*18,655,624*		*27097604*
Total financial assets	8,441,980	19,047,953	-	27,489,933
Financial liabilities held-for-trading *Derivative financial liabilities held-for-trading*		*1,568,976*		*1,568,976*
Total financial liabilities	-	1,568,976	-	1,568,976

4. Financial risk management (*continued*)

(e) Operational risk

Operational risk is the risk of exposure to direct or indirect loss due to the Bank's processes, employees, technology and infrastructure and external factors such as legal and regulatory requirements and generally accepted corporate approaches (except credit, market and liquidity risk). Operational risks arise from all operations of the Bank, and all entities are exposed to such risks.

The Bank's operational risk elements are determined in accordance with the operational risk definition by evaluating all processes, products and units. Control areas are created for the operational risks that the Bank is exposed to, and all operational risks are included in the relevant control areas and monitored. In this context, an appropriate monitoring method has been developed, defining all operational risks and control frequencies.

The Group has used the "Basic Indicator Method" in the calculation of operational risk. In accordance with the Communiqué on Procedures and Principles regarding Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette dated 7 January 2014 and numbered 5, Section 4 "Calculation of Operational Risk Exposure", operational risk exposure is calculated using the basic indicator method as fifteen percent of the year-end gross income averaged over the previous three years, multiplied by twelve and a half in line with the practice in the national legislation . Operational risk exposure was calculated as 12.5 times operational risk exposure and was shown as TRY 58,813,000 (December 31, 2015: TRY 56,663,000).

The Central Bank of TRNC ("KKTCMB"), the regulatory organization in the banking sector, determines and inspects capital adequacy requirements that the Bank has to satisfy. In satisfying capital requirements, The Central Bank of TRNC requires that the ratio of capital to total risk weighted assets should be minimum 12%. In the framework of the regulations of The Central Bank of TRNC, the Bank's financial statements are taken into account in the calculation of capital adequacy ratios.

The consolidated equities of the Bank and its financial subsidiaries are analyzed in two categories:

• Tier I capital consists of the sum of goodwill, paid-in capital after deducting prepaid expenses and some other costs, legal reserves, statutory reserves, profit reserves, extraordinary reserves, retained earnings, foreign currency translation differences, non-controlling interests.

• Tier II capital consists of general loan reserves, revaluation fund, available-for-sale financial assets, associates and subsidiaries valuation differences, subordinated loans and free provisions set aside.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

4. Financial risk management (*continued*)

(f) Capital management – regulatory capital adequacy

Banking operations are classified as commercial transactions or banking transactions. It has been determined to reflect various levels of risks which the Bank may face due to risk weighted assets and off-balance sheet liabilities. Capital requirement for operational risk and market risk as of December 31, 2016 and December 31, 2015 has been calculated using the Basic Indicator Approach, and included in capital adequacy calculations.

The Bank's policy is to create a strong capital base to build trust in investors, lenders and the market in order to achieve the targeted growth.

It has been observed that the Bank its operations which are individually subject to separate regulations have complied with necessary capital requirements in the current and the previous years.

The Bank's regulatory capital positions as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Tier-I capital	86,721,336	82,125,881
Tier-II capital	80,841,395	82,078,545
Deductions from the capital	(97,678,000)	(96,785,848)
Total equity	**69,884,731**	**67,418,578**
Risk weighted assets	329,243,000	368,838,000
Market risk exposure	26,488,000	28,313,000
Operational risk	58,813,000	56,663,000
Capital ratios		
The ratio of total equity to the sum of risk weighted assets, market risk exposure and operational risk exposure	16.86	14.86
The ratio of Tier-I capital to the sum of risk weighted assets, market risk exposure and operational risk exposure	20.92	18.10

5. Insurance risk management

In an insurance contract, risk is the possibility of the insured event to occur and uncertainty of the amount of loss subject to it. Due to the nature of the insurance contracts, this risk is possible and unpredictable.

In insurance contracts in which the possibility theory is used in pricing and setting aside provisions, the fundamental risk that the Group is subject to is the possibility that losses and the rights and benefits offered to policyholders occur in excess of the technical provisions set aside for insurance contracts as shown in the financial statements. This occurs when the incurred losses and the paid amounts are higher than what is estimated in terms of frequency and size. Events that are subject to insurance are incidental, and the number of losses incurred and the amount of benefits to policyholders may differ year to year from the estimates made using statistical methods.

Experience has shown that the variability of the expected result decreases as the number of similar insurance contracts increase. Moreover, a portfolio with a high variability will be affected from changes in each sub-portfolio.

Pricing policies

The Group’s pricing principles and policies are as follows:

i) when determining risk premiums, the amount of expected loss is taken into account and premium limits are determined accordingly.

ii) in pricing activities which are part of the new product development process, the Group's relevant units are allowed to work in coordination taking into account customer requirements and the competitive conditions in the market.

iii) the aim is to maintain profitability and continuity on a product basis.

The results of pricing efforts are compared against competitors and international examples.

Risk management

The Group manages insurance risk by managing policy writing limits, approval procedures for new products and limit excesses, pricing, product design and reinsurance policies.

The Group’s policy writing strategy aims diversity in order to maintain a balance portfolio, and depends on creating wide portfolios consisting of similar risks in order to reduce variability of the expected result. All non-life insurances are inherently annual, and policyholders are entitled to deny renewal or change contract terms at the renewal stage.

Insurance risk concentration

Subject to the Group’s liabilities, the size of concentration of an insurance risk that determines the dimension of a certain event or series of events that might significantly affect the Group constitutes the mainline of the insurance risk that the Group is faced with. These concentrations may arise from a single contract or a series of contracts which may give rise to occurrence of significant liabilities. Another important issue related to concentration of insurance risk is that the risk may arise from a combination of risks in a series of different insurance classes.

The concentration of insurance risk may arise from events which rarely occur, but make a high impact such as natural disasters; the unexpected changes in the Group's trends such as mortality rate, behavioral changes in policyholders; or exposure to a high loss caused by an important legal process or legal risks.

The Group believes that there is no significant risk concentration based on social groups, profession, age or similar criteria in non-life insurances. The highest possibility that may give rise to a substantial damage for the Group arise from natural disasters like floods, storms and earthquakes.

5. Insurance risk management (*continued*)

Insurance risk concentration *(continued)*

The Group follows the following methods and assumptions to calculate such risks:

• Measuring geographical concentrations;
• Measuring maximum amount of potential loss;
• Excess of loss reinsurance agreements.

Reinsurance

The Group assigns part of its insurance risks to reinsurance companies by executing reinsurance agreements in order to control its risk exposure and protect its capital resources.

Reinsurance companies that offer reinsurance services for life insurance and other risks are important service providers for the Group's insurance associates. The following criteria are determinant in relationships with reinsurers:

i) financial soundness
ii) a long-term approach in business relationships
iii) competitive prices
iv) capacity provided for optional and non-proportional (catastrophic) reinsurance agreements
v) capabilities provided to the Company for the risk measurement process, product development, trainings and new developments in the sector

Performances of reinsurance companies are evaluated every year in respect of treaties, taking into account criteria such as whether the reinsurer's share in insurance claims and the balances arising from reinsurance transactions owed to the Group's insurance partners have been paid on time and in full as well as the capacity supplied to the Group in optional works, the speed in operational reinsurance transactions and technical knowledge and market information transferred to the Group.

6. Segment Reporting

Operating segments

The Group has six reportable operating segments which are defined below and each of which is a strategic business unit. These strategic business units offer different products and services, and are managed separately according to the Group's management and internal reporting structure. The Board of Directors examines internal management reports of each strategic business unit minimum on a quarterly basis. Below is a summary of the activities of each reportable segment of the Group:

Retail banking

It covers loans to retail customers, deposits collected from such customers and other transactions and balances with these customers.

Corporate and commercial banking

It covers loans to corporate customers, deposits collected from such customers and other transactions and balances with these customers.

Investment banking

It covers the Group's trading activities and corporate financing activities.

This segment assumes the Group's funding and central risk management activities through liquid asset investments such as loans obtained, issuance of debt securities and short-term investments, government bonds, and private bonds.

Insurance

It covers the Group's insurance activities.

Other

It covers information about operating segments that do not meet any of the quantitative lower limits.

The operating results for each reporting segment are presented below. Segment performances are measured based on pre-tax profits of segments included in management reports that are reviewed by the Board of Directors. As the Management believes that profits of the relevant segments are the most appropriate information for performing an evaluation by comparing certain segments against other entities operating in the same sectors, segment profits are used as the performance measurement criterion. Inter-segmental pricing is performed on an arm's length basis.

The measurement of assets and liabilities and operating results of the segments is performed according to the accounting policies described in the notes to accounting policies.

Türk Bankası Limited and its Subsidiaries
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(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

6. Reporting by segments (*continued*)

Information about operating segments

December 31, 2016	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total	Eliminations	Total
Interests from loans and receivables	10,752,020	3,856,771	21,908,204	36,516,995	-	12,739,597	49,256,592	-	49,256,592
Interests on deposits	(23,617,802)	(2,918,233)	(1,307,667)	(27,843,702)	-	-	(27,843,702)	-	(27,843,702)
Operating profit									
Profit before tax	9,245,116	3,569,157	(2,507,920)	10,306,353	1,640,423	-	11,946,776	(645,958)	11,300,818
Income tax provisions	54,858	(533.464)	(2,081,503)	(2,560,109)	(389,693)	-	(2,949,802)	-	(2,949,802)
Net profit for the period	9,299,974	3,035,693	(4,589,423)	7,746,244	1,250,730	-	8,996,974	(645,958)	8,351,016
December 31, 2016									
Segment assets	357,456,023	91,995,548	1,358,066,817	1,807,518,388	11,859,817	-	1,819,378,205	(123,065,490)	1,696,312,715
Total assets	357,456,023	91,995,548	1,358,066,817	1,807,518,388	11,859,817	-	1,819,378,205	(123,065,490)	1,696,312,715
Segment liabilities	1,147,393,151	207,619,696	181,362,813	1,536,375,660	1,884,219	—	1,538,259,879	(2,293,234)	1,535,966,645
Equities including non-controlling interests			271,142,728	271,142,728	9,975,598		281,118,326	(120,772,256)	160,346,070
Total liabilities and equity	1,147,393,151	207,619,696	452,505,541	1,807,518,388	11,859,817	-	1,819,378,205	(123,065,490)	1,696,312,715

December 31, 2016	TRNC	Turkey	Europe	Other	Total	Eliminations	Total
Total Assets	424,080,984	610,468,175	784,829,046	-	1,819,378,205	(123,065,490)	1,696,312,715
Total liabilities	746,599,816	374,626,416	407,135,647	9,898,000	1,538,259,879	(2,293,234)	1,535,966,645
Total equity	104,700,168	111,090,158	65,328,000	-	281,118,326	(120,772,256)	160,346,070
Total liabilities and equity	851,299,984	485,716,574	472,463,647	9,898,000	1,819,378,205	(123,065,490)	1,696,312,715

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

6. Reporting by segments (*continued*)

Information about operating segments (*continued*)

December 31, 2015	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total	Eliminations	Total
Interests from loans and receivables	11,129,099	5,894,838	21,236,527	38,260,464	-	14,384,934	52,645,398	-	52,645,398
Interests on deposits	(17,627,756)	(6,004,007)	(2,060,903)	(25,692,666)	—	—	(25,692,666)	21,709	(25,670,957)
Operating profit									
Profit before tax	7,846,563	10,888,612	(11,800,933)	6,934,242	1,216,457	-	8,150,699	-	8,150,699
Income tax provisions	67,071	(1,655,242)	(780,500)	(2,368,671)	(85,004)	479,494	(1,974,181)	-	(1,974,181)
Net profit for the period	7,913,634	9233370	(12,581,433)	4,565,571	1,131,453	479,494	6176518	-	6176518
December 31, 2015	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total	Eliminations	Total
Segment assets	223,335,425	99,522,417	1237408857	1,560,266,699	9,854,538	-	1,570,121,237	(123,449,881)	1,446,671,356
Total assets	223,335,425	99,522,417	1237408857	1,560,266,699	9,854,538	-	1,570,121,237	(123,449,881)	1,446,671,356
Segment liabilities	954,332,477	145,453,768	273,044,482	1,395,921,319	1,129,724	3,571,201	1,400,622,244	(105,161,214)	1,295,461,030
Equities including non-controlling interests			180,665,929	180,665,929	8,724,814	3,198,842	192,589,585	(18,288,667)	174,300,918
Total liabilities and equity	954,332,477	145,453,768	453,710,411	1,553,496,656	9,854,538	6,770,043	1,570,121,237	(123,449,881)	1,446,671,356

December 31, 2015	TRNC	Turkey	Europe	Other	Total	Eliminations	Total
Total Assets	356,903,557	678,847,850	534,369,830	-	1,570,121,237	(123,449,881)	1,446,671,356
Total liabilities	671,422,448	244,983,160	374,875,970	7,628,000	1,298,909,578	(3,448,548)	1,295,461,030
Total equity	95,347,109	110,788,550	65,076,000	-	271,21 1,659	(120,001,333)	151,210,326
Total liabilities and equity	766,769,557	355,771,710	439,951,970	7,628,000	1,570,121,237	(123,449,881)	1,446,671,356

7. Cash and cash equivalents

Details of cash and cash equivalents specified in the consolidated balance-sheet and consolidated cash flow statement as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	**December 31, 2015**
Cash	11,277,052	10,635,352
Central Bank deposits other than required reserves	222,605,337	140,587,328
Loans and advances to banks with an original maturity shorter than three months	363,170,541	249,677,951
Inter-bank money market investments	236,079,491	117,949,418
Total cash and cash equivalents included in the consolidated balance-sheet	833,132,421	518,850,049
Rediscount on cash and cash equivalents	(394.100)	(133.785)
Restricted bank deposits(*)	(306.229)	(280.768)
Total cash and cash equivalents included in the consolidated cash flow statement	832,432,092	518,435,496

(*) The amount of restricted bank deposits which Türk Sigorta Ltd holds at the Ministry of Finance of TRNC due to its insurance obligations is TRY 306,229 (December 31, 2015: TRY 280.768).

8. Central Bank required reserves

Pursuant to the decision of KKTCMB dated 30 January 2014 and 872 and article 23 of the Central Bank Law of TRNC, the Banks operating in TRNC constitute legal reserves for their liabilities in Turkish Lira and foreign currencies at the rate of 8% for deposits with a maturity up to 3 months, 7% for deposits with a maturity up to 6 months (6th month included), 6% for deposits with a maturity up to 1 year (1 year included), 5% for deposits with a maturity longer than 1 year, and 8% for other liabilities expect deposits.

In the calculation of legal reserves for the year 2013, a single rate, i.e. 8%, was used for foreign currency obligations, and after the amendment of legislation which was made by KKTCMB pursuant to the Decree No. 872, legal reserve rates which varied by maturity were established for foreign currency obligations. The interest rate applied by KKTCMB for legal reserve holdings is 3.5% for Turkish Lira, 0% for USD, 0% for GBP and 0% for EURO.

	December 31, 2016	**December 31, 2015**
TRY	18,370,031	16,509,306
British Pound	28,459,398	26,965,101
Euro	6,458,624	5,461,543
US Dollar	6,283,167	4,570,477
Total	**59,571,220**	**53,506,427**

9. Financial assets reflected at fair value through profit or loss

Derivative financial instruments held-for-trading

Financial assets reflected at fair value through profit / loss as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Derivative Financial Assets Held-For-Trading	1,813,418	392,329
Total financial assets reflected at fair value through profit or loss	**1,813,418**	**392,329**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

9. Financial assets reflected at fair value through profit or loss (*continued*)

Derivative financial instruments held-for-trading *(continued)*

Gains and losses derived from derivative financial instruments and changes in the fair value of financial instruments held-for-trading are accounted for under the net capital market transaction profits account in the attached consolidated comprehensive income statement. The net capital market transaction profits for the reporting period ended December 31, 2016 is TRY 66,354 (December 31, 2015: TRY 643,757).

A derivative financial instrument is a financial agreement executed between two parties where the payments are contingent upon the price of one or more factors such as the price of the financial instrument, benchmark interest rates, commodity prices or index. The ordinary activities of the Group include various transactions comprising derivative financial instruments. Among the derivative financial instruments used by the group are forward foreign exchange buying and selling transactions and currency swaps.

The below table shows the distribution of nominal amounts of derivative financial instruments by maturity. The nominal amount of a derivative instrument is the amount of the asset which is subject to the derivative transaction, of the benchmark interest or of the index, and constitutes a basis for the measurement of changes in the value of the derivative transaction. The nominal amounts of derivative instruments show the volume of transactions which exist as of the end of the period or year, and do not in any way reflect credit risk or market risk.

Fair values of derivative financial instruments are calculated using the forward rates at the report date. If reliable forward rates cannot be established due to fluctuations in the market, current market rates are taken into account as best estimates in the determination of the present value of forward rates. The maturity analysis of gross nominal values of derivatives is presented below:

			December 31, 2016			
	Up to 1 Month	**1 to 3 Months**	**3 to 12 months**	**1 to 5 Years**	**5 Years and Above**	**Total**
Currency swaps: Purchase	97,859,700					97,859,700
Sales	96,924,849	--	--	--	--	96,924,849
Total purchase	97,859,700	--	--	-	--	97,859,700
Total sale	96,924,849	--	--	--	--	96,924,849
Total	**194,784,549**	**-**	**--**	**-**	**-**	**194,784,549**

			December 31, 2015			
	Up to 1 Month	**1 to 3 Months**	**3 to 12 months**	**1 to 5 Years**	**5 Years and Above**	**Total**
Currency swaps:						
Purchase	101,586,010	55,875,000	--	-	--	157,461,010
Sales	102,068,774	56,413,424	--	--	--	158,482,198
Total purchase	101,586,010	55,875,000	—	—	—	157,461,010
Total sale	102,068,774	56,413,424	--	--	--	158,482,198
Total	**203,654,784**	**112,288,424**	**-**	**-**	**-**	**315,943,208**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

10. Funds from repo transactions

The Group raises funds through repurchase agreements by repurchasing financial assets that it holds and selling them at a pre-determined interest. Repo transactions are generally used in the short-term financing of interest bearing assets. Financial assets that are subject to repo transactions are as follows:

	December 31, 2016		**December 31, 2015**	
	Fair value of the asset	**Funds from repo transactions**	**Fair value of the asset**	**Funds from repo transactions**
Funds from repo transactions	19,248,415	19,239,756	31,718,085	31,709,180
Total	**19,248,415**	**19,239,756**	**31,718,085**	**31,709,180**

Interest rediscount amount of funds derived from repo transactions calculated as of December 31, 2016 is TRY 8,659 (December 31, 2015: TRY 8,905), and is shown among funds derived from repo transactions.

Assets are pledged as security for funds derived from repo agreements, and generally, the carrying values of assets are higher than the carrying values of relevant obligations within margins set between the parties.

11. Loans and advances to banks

Loans and advances to banks consist of balances with a maturity shorter than three moths as of the date of purchase, and the breakdown of such balances is as follows at December 31, 2016 and December 31, 2015.

	December 31, 2016		
	TRY	FX	Total
Domestic banks	42.960	--	42.960
Foreign banks	--	7,345,944	7,345,944
Total	42.960	7,345,944	7,388,904

	December 31, 2015		
	TRY	FX	Total
Domestic banks	40,465	--	40,465
Foreign banks	--	14,533,320	14,533,320
Total	40,465	14,533,320	14,573,785

As of December 31, 2016, there are no loans and advances to banks with a maturity longer than three months after the date of purchase (December 31, 2015: None).

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

12. Loans and advances to customers

The details of loans and advances to customers as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	**December 31, 2015**
Commercial loans	460,284,297	510,497,222
Payables to financial institutions	86,200,000	124,400,118
Consumer loans	80,257,301	44,275,622
Credit cards	3,759,580	3,770,036
Total active loans	**630,501,178**	**682,942,998**
Impaired loans	4,184,550	3,830,895
Total gross loans	**634,685,728**	**686,773,893**
Provision for impairment in Loans and advances to customers	(4,184,550)	(3,830,895)
Provision for impairment	*(3,753,450)*	*(3,395,585)*
Provision for collective impairment	*(431,100)*	*(435,310)*
Loans and advances to customers, net	**630,501,178**	**682,942,998**

Provisions for personal impairment include provisions set aside for loans and advances that are specifically considered to be impaired or non-performing.

The provision for collective impairment include the provisions set aside for loan losses that are resulted from possible defaults that may occur within 12 months after the loan and advances reporting date.

The movements of the provision for impairment within the period:

	December 31, 2016	**December 31, 2015**
Amount of provisions for impairment at the beginning of the period	3,830,895	3,048,368
Rate translation differences	(430,841)	(112,118)
Cancellation provisions	896.757	822.321
Collections during the period	(948,488)	(989,889)
Provision for impairment set aside within the period	1,097,613	1,108,250
Provision for impairment, after collections	**4,445,936**	**3,876,932**
Loans and advances written off within the year	(261,386)	(46,037)
Amount of provisions for impairment at the end of the period	**4,184,550**	**3,830,895**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

13. Financial assets held-for-investment purposes

Investment securities as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	**December 31, 2015**
Available-for-sale financial assets	17,464,635	27,087,938
Held-to-maturity investments	116,835,642	116,967,096
Total investment securities	**134,300,277**	**144,055,034**

	December 31, 2016	December 31, 2015
Debt securities:		
Bonds issued by TRNC Development Bank	8,999,555	9,014,792
Private sector bonds	8,465,080	18,073,146
Total available-for-sale financial assets	**17,464,635**	**27,087,938**

Held-to-maturity investments:

	December 31, 2016	**December 31, 2015**
Debt securities:		
Government bonds – TRY	77,631,472	78,838,634
Private sector bonds	39,204,170	38,128,462
	116,835,642	**116,967,096**

The movement of held-to-maturity securities within the period:

	December 31, 2016	**December 31, 2015**
Balance at the Beginning of the Period	**116,967,096**	**108,805,752**
Purchases within the Period	39,510,888	39,315,000
Amortizations (-)	(42,852,282)	(41,723,073)
Rate Differences	1,804,383	7,300,230
Interest Rediscounts	1,405,557	3,269,187
Total at the End of the Period	**116,835,642**	**116,967,096**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

14. Tangible and intangible assets

The movements of tangible and intangible assets between January 1 and December 31, 2016 are as follows:

Tangible assets	**1 January 2016**	**Rate Conversion Differences**	**Inflows**	**Outflows**	**December 31, 2016**
Cost:					
Buildings and lands	27,134,059	8,081	574,509		27,716,649
Motor-vehicles	1,096,431	153	8,622	--	1,105,206
Furniture, office equipment and special costs	17,757,391	4.080	625.486	(282.921)	18,104,036
Other fixed assets	2,322,071	--	23.758	--	2,345,829
Accumulated depreciation:					
Buildings and lands	13,350,067	2,427	1,024,403	--	14,376,897
Motor-vehicles	645.002	43	127,470	--	772,515
Furniture, office equipment and special costs	14,297,672	2,097	1,299,659	(279,205)	15,320,223
Other fixed assets	1,883,861	--	181,821	--	2,065,682
Net book value	**18,133,350**				**16,736,403**

Intangible assets	**1 January 2016**	**Rate Conversion Differences**	**Inflows**	**Outflows**	**December 31, 2016**
Cost:					
Software programs	13,006,290	2,447	246.239	--	13,254,976
Accumulated amortization:					
Software programs	7,917,036	1.727	1,224,928	--	9,143,691
Net book value	**5,089,254**				**4,111,285**

As of December 31, 2016, there is no pledge, lien or other restriction on tangible assets.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

14. Tangible and intangible assets (*continued*)

The movements of tangible and intangible assets between January 1 and December 31, 2015 are as follows:

Tangible assets	**1 January 2015**	**Rate Conversion Differences**	**Inflows**	**Outflows**	**December 31, 2015**
Cost:					
Buildings and lands	21,568,324	3,731,814	1,855,471	(21,550)	27,134,059
Motor-vehicles	983,579	70.701	101.951	(59.800)	1,096,431
Furniture, office equipment and special costs	15,241,950	1,861,098	654,343		17,757,391
Other fixed assets	2,295,671	--	26,400	--	2,322,071
Accumulated depreciation:					
Buildings and lands	10,311,832	2,023,957	1,014,278	--	13,350,067
Motor-vehicles	545.487	28,962	117,742	(47,189)	645.002
Furniture, office equipment and special costs	11,191,510	1,722,823	1,395,952	(12.613)	14,297,672
Other fixed assets	1,683,479	--	200.382	--	1,883,861
Net book value	**16,357,216**				**18,133,350**

Intangible assets	**1 January 2015**	**Rate Conversion Differences**	**Inflows**	**Outflows**	**December 31, 2015**
Cost:					
Software programs	10,217,957	1,656,798	1,131,535		13,006,290
Accumulated amortization:					
Software programs	5,708,477	1,104,532	1,104,027	—	7,917,036
Net book value	**4,509,480**				**5,089,254**

As of December 31, 2015, there is no pledge, lien or other restriction on tangible assets.

15. Immovable properties held for investment

None (December 31, 2015: None).

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

16. Other assets

The details of other asset accounts as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Deposits and guarantees given	2,429,260	1,961,743
Prepaid expenses	1,968,886	1,846,781
Receivables from insurance operations	1,359,271	710,872
Receivables from cheques not yet due	103.880	260.856
Other	2,896,312	4,347,878
Total other assets	**8,757,609**	**9,128,130**

17. Derivative Financial liabilities

As of December 31, 2016 and December 31, 2015, financial liabilities held for trading consist of negative differences relating to derivative financial instruments:

	December 31, 2016	December 31, 2015
Swap transactions	878.567	1,568,828
Total	**878.567**	**1,568,828**

18. Bank deposits

The details of the bank deposits as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	**December 31, 2015**
Demand deposit	132.032	247.836
Time deposits	16,399,044	37,057,984
Total bank deposits	**16,531,076**	**37,305,820**

	December 31, 2016	**December 31, 2015**
Domestic	132.032	12,247,838
Foreign	16,399,044	25,057,982
Total	**16,531,076**	**37,305,820**

19. Customer deposits

The details of customer deposits as of December 31, 2016, and December 31, 2015 are as follows:

	December 31, 2016		
	Demand deposit	**Time deposits**	**Total**
Savings deposits	420,925,680	439,675,366	860,601,046
Foreign exchange deposit account	51,865,647	399,249,820	451,115,467
People residing in the country	47,701,259	364,362,521	412,063,780
People residing abroad	4,164,388	34,887,299	39,051,687
Commercial institutions deposits	69,887,909	69,239,925	139,127,834
Official institutions deposits	2,546,915	3.423	2,550,338
Other	5,898,313	4,522,989	10,421,302
Total customer deposits	**551,124,464**	**912,691,523**	**1,463,815,987**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

19. Customer deposits (*continued)*

	December 31, 2015		
	Demand deposit	Time deposits	Total
Savings deposits	289,606,209	400,638,979	690,245,188
Foreign exchange deposit account	45,231,273	360,909,869	406,141,142
People residing in the country	*41,784,859*	*333,532,326*	*375,317,185*
People residing abroad	*3,446,414*	*27,377,543*	*30,823,957*
Commercial institutions deposits	27,747,323	60,525,723	88,273,046
Official institutions deposits	365.772	2.888	368.660
Other	6,440,245	2,339,354	8,779,599
Total customer deposits	**369,390,822**	**824,416,813**	**1,193,807,635**

20. Subordinated loans

The Group signed a Subordinated Loan agreement on September 10, 2014 with Özyol Holding A.Ş. in the framework of the "Communiqué on Procedures and Principles Regarding Measurement and Evaluation of the Capital Adequacy of Banks" published on the basis of Article 33 of the Banking Law No. 39/2001 (Communiqué").

The amount of loan was USD 5,000,000, annual interest rate was 6 Month USD Libor +5.25%, and the term of the agreement was 6 years after its signature.

As of December 31, 2016, net carrying value of the subordinated loan is TRY 17,545,000 (December 31, 2015: TRY 14,565,000).

21. Other Liabilities and Provisions

The primary items that constitute other obligations and provisions are as follows:

	December 31, 2016	**December 31, 2015**
Payment Orders	4,381,046	3,205,301
Various payables	4,286,715	1,585,995
Other liabilities	1,659,509	1,386,058
Insurance technical provisions	860.277	778.546
Provision for short term employee benefits	333.983	566.586
Blocked accounts	267.720	391.135
Other provisions	2,599,553	3,732,893
Total other liabilities and provisions	**14,388,803**	**11,646,514**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

21 . Other liabilities and provisions (*continued*)

The movements of insurance technical provisions within the year are detailed in the following tables:

Unearned premium reserve	**December 31, 2016**	**December 31, 2015**
Unearned premium reserve, gross	1,786,847	1,379,802
Unearned premium reserve, reinsurer's shares	(928.369)	(602.782)
Unearned premium reserve, net	**858.478**	**777.020**

Unearned premium reserve	**December 31, 2016**	**December 31, 2015**
Opening balance	777.020	550.498
Premiums written during the period	3,632,460	2,573,165
Premiums earned during the period	(3,551,002)	(2,346,643)
Balance at the end of the year	**858.478**	**777.020**

	December 31, 2016	**December 31, 2015**
Outstanding claims reserve, gross	4.496	3.812
Outstanding claims reserve, reinsurer's shares	(2.697)	(2.286)
Outstanding claims reserve, net	**1.799**	**1.526**

Outstanding claims reserve	**December 31, 2016**	**December 31, 2015**
Opening balance	1.526	1.350
Payments during the period	(277.073)	(183.844)
Increases during the period	277.346	184.020
Balance at the end of the year	**1.799**	**1.526**

22. Income taxes

The items that constitute the income tax expense shown in the attached consolidated financial income statement are as follows:

	December 31, 2016	**December 31, 2015**
Income taxes shown within the net profit for the period		
Current tax expense	(2,551,112)	(2,195,616)
Deferred tax income / (expense):	(398.690)	221.435
	(2,949,802)	**(1,974,181)**
Income taxes shown within other comprehensive income		
Accounted tax within other Comprehensive Income	(74.855)	(88.402)
Accounted deferred tax within other Comprehensive Income	(151.570)	(105.969)
	(226.425)	**(194.371)**
Total tax expenses	**(3,176,227)**	**(2,168,552)**

The movements of provision for income tax within the period are detailed in the table below:

	December 31, 2016	**December 31, 2015**
Opening balance	3,021,597	2,684,306
Income tax expense for the current period	2,551,112	2,195,616
Income tax accounted for under other comprehensive income	74.855	88.402
Prepaid taxes within the period	(3,498,684)	(1,946,727)
Corporation tax payable	**2,148,880**	**3,021,597**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

22. Income taxes (*continued*)

The reconciliation between the provision for income tax calculated at the legal tax rate over the pretax operating profit of the Group shown in its consolidated financial statements and the actual provision for income tax calculated at the Group's effective tax rate have been detailed in the following table as of December 31, 2016 and December 31, 2015.

	December 31, 2016	**Tax rate (%)**	**December 31, 2015**	**Tax rate (%)**
Net operating profit before tax and non-controlling interests	**11,300,818**		**8,150,699**	
Provision for income tax calculated at the legal tax rate	(2,709,296)	20.25 - 23.5%	(1,977,040)	20.25 - 23.5%
Other, net	(240.506)		2.859	
Income tax expense	**(2,949,802)**		**(1,974,181)**	

The details of items that result in deferred tax assets and liabilities as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	**December 31, 2015**
Other provisions	(652.931)	(1,325,645)
Valuation differences of financial assets and liabilities	(21.753)	(13.631)
Deferred tax assets	**(674.684)**	**(1,339,276)**
Valuation differences of financial assets and liabilities	147.578	656.401
KKTCMB and VUY depreciation difference	405.715	309.030
Other temporary differences	1,539,967	2,210,301
Deferred tax liabilities:	**2,093,260**	**3,175,732**
Deferred tax liabilities, (net)	**1,418,576**	**1,836,456**

23. Earnings per share

Earnings per share are calculated by dividing the Group's net profit for the period by the weighted average number of shares in the period.

The Company has no diluted shares as of December 31, 2016 and December 31, 2015.

The following table shows the calculation of earnings per share:

	December 31, 2016	**December 31, 2015**
Net profit for the period	8,351,016	6176518
Weighted number of shares (100 pieces)	76,616,899	74,018,343
Earnings per 100 shares	0.1081	0.0834

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

24. Equity

Paid-up capital

As of December 31, 2016, the authorized capital of the Bank is TRY 78,000,000 (December 31, 2015: TRY 74,000,000). As of December 31, 2016, the paid-up capital is TRY 77,211,336 (December 31, 2015: TRY 73,534,074). The shares representing authorized capital consist of 20,380 “New A” shares each worth 10 Kurus, and 77,997,962 “New B” shares each worth TRY 1. “New A” and “New B” shares each have one voting right, and are equal in terms of other rights.

Legal reserves

Banks have to set aside a reserve for contingencies at the rate of 10% of their annual net profits. This requirement continues until the reserve is equal to total paid-up capital. These reserves are only used in the deduction of losses.

Pursuant to the decision taken at the Bank’s 114th Ordinary General Assembly Meeting held on April 27, 2016; of a sum of TRY 5,512,008 which was found by adding the profit carried forward from year 2014 to TRY 4,047,041, i.e. net profit for year 2015, TRY 405,000 was transferred to the Legal Reserve Account and TRY 5,107,008 was transferred to Retained Earnings Account. At the Extraordinary General Assembly Meeting held at the same date, it was decided to capitalize TRY 3,676,704 from the Retained Earnings Account and to issue “New B” bonus shares at a rate of 5.00% to shareholders over the nominal values of “New A” and "New B” shares based on the number of shares they held at June 5, 2016.

Non-controlling interests

The details of the non-controlling interests as of December 31, 2016 and December 31, 2015, are as follows:

	December 31, 2016	December 31, 2015
Capital and other reserves	9,579,794	9,950,828
Retained earnings	3,882,894	3,756,371
Other comprehensive income	2,319,172	1,399,897
Total	**15,781,860**	**15,107,097**

Available-for-sale financial assets valuation differences:

	December 31, 2016	December 31, 2015
Valuation differences at the beginning of the period	346.625	(286.115)
Changes in fair value of available-for-sale financial assets	644.980	450.931
The effect of deferred and corporation tax	(151.570)	(105.969)
Valuation differences of available-for-sale financial assets transferred to profit/loss within the period	318.533	376.180
The effect of deferred and corporation tax	(74.855)	(88.402)
Valuation differences at the end of the period	**1,083,713**	**346.625**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

25. Related parties

If a party controls another party, or enjoys significant influence on the other party's decisions relating to its activities and operations, then these parties can be called related parties. Shareholders and Group companies are defined as related parties for the purposes of this consolidated financial report. Related parties include also individual shareholders, managers of Group companies, members of the board of directors and their families.

The Group conducts various transactions under commercial conditions with related parties in the scope of its banking activities.

Below are the balances with related parties as of the end of the period and the transactions conducted within the year:

		December 31, 2016	
	Cash loans	**Non-Cash Loans**	**Deposits**
Indirect/direct shareholders	29,833,835	67.852	18,036,280
Senior Management	291.478	4.640	6,375,714
Total	**30,125,313**	**72.492**	**24,411,994**
		December 31, 2015	
	Cash loans	**Non-Cash Loans**	**Deposits**
Indirect/direct shareholders	20,652,433	37.208	4,969,794
Senior Management	267.710	--	2,787,904
Total	**20,920,143**	**37.208**	**7,757,698**

		December 31, 2016		
	Commission Incomes	**Interest Incomes**	**Interest Expenses**	**Other Operating Expenses**
Indirect/direct shareholders	13.023	255.236	1,135,590	296.489
Senior Management	5.018	29.578	130.856	--
Total	**18.041**	**284.814**	**1,266,446**	**296.489**
			December 31, 2015	
	Commission Incomes	**Interest Incomes**	**Interest Expenses**	**Other Operating Expenses**
Indirect/direct shareholders	48.855	250.541	972.963	254.848
Senior Management	3.247	26.773	62.459	--
Total	**52.102**	**277.314**	**1,035,422**	**254.848**

Transactions

There is no collateral taken from receivables from related parties. There are no impaired receivables from related parties.

Benefits and rights to senior management

Total interests provided to the senior management and board of directors members in the accounting period ended December 31, 2016 amount to TRY 4,338,874 (December 31, 2015: 4.004.574 TL)

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

26. Other income

The other income as of the years ended December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	**December 31, 2015**
Earned premiums	1,868,305	1,433,805
Written premiums, net of reinsurer's share	*1,786,847*	*1,207,283*
Change in unearned premium reserve	*81.458*	*226.522*
Cancellation provisions	1,007,611	922.600
Prudential Reserves Premium Return	508.986	88.318
Fees charged to customers for communication expenses	109.342	116.429
Income from sale of fixed assets	12.879	17.281
Other	61.984	25.913
Total	**3,569,107**	**2,604,346**

27. Personnel expenses

The details of personnel expenses during the periods ended on December 31 , 2015 and December 31, 2016 are as follows:

	December 31, 2016	**December 31, 2015**
Salary and wages	(19,515,994)	(19,414,678)
Social security premiums employer's share	(2,671,770)	(2,788,921)
Other benefits	(1,541,052)	(1,565,982)
Total	**(23,728,816)**	**(23,769,581)**

Average number of employees of the Group within the year:

	December 31, 2016	**December 31, 2015**
Bank	196	226
Subsidiaries	92	90
Turkish Bank UK Ltd	*82*	*81*
Türk Sigorta Ltd	*10*	*9*
Total	**288**	**316**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

28. Other expenses

The details of other expenses during the fiscal years ended on December 31 , 2015 and December 31, 2016 are as follows:

	December 31, 2016	December 31, 2015
Saving Deposit Insurance Fund premiums	(4,085,409)	(4,973,142)
Computer usage expenses	(2,784,756)	(2,902,336)
Communication expenses	(1,442,170)	(1,382,764)
Consultancy expenses	(4,058,564)	(1,330,620)
Lease and operating lease expenses	(1,165,920)	(1,087,993)
Insurance expenses	(863.184)	(569.984)
Office material expenses	(435.165)	(499.895)
Advertising expenses	(334.151)	(491.719)
Energy expenses	(419.316)	(465.943)
Maintenance and repair expenses	(354.317)	(397.243)
Vehicles expenses	(161.710)	(192.985)
Hospitality expenses	(137.825)	(132.652)
Cleaning expenses	(108.980)	(105.149)
Other various administrative expenses	(2,486,041)	(3,740,162)
Total	**(18,837,508)**	**(18,272,587)**

29. Off-balance sheet liabilities

As of December 31, 2016 and December 31, 2015, the Bank and its subsidiaries assume various commitments and contingent liabilities which are summarized below, but are not shown in consolidated financial statements during their ordinary activities:

	December 31, 2016	December 31, 2015
Letters of guarantee	10,553,233	7,771,058
Letters of credit	6,316,200	5,243,400
Total non-Cash Loans	**16,869,433**	**13,014,458**
Credit cards expenditure limit commitments	35,692,701	33,150,994
Loan allocation commitments with disbursement guarantees	132,324,971	141,481,353
Payment commitments for cheques	27,096,000	28,553,500
Other Irrevocable Commitments	**1,286,999,359**	**487,819,071**
Total commitments	1,482,113,031	691,004,918
Total commitments and non-cash loans	**1,498,982,464**	**704,019,376**

Information about contingent liabilities and assets

As of December 31, 2016 the amount of provisions set aside for litigation due to a dispute is TRY 537,544 (December 31, 2015: TRY 287.477).

Due to the nature of insurance activities and the nature of the law system which generally favors policyholders, the Group has set aside full reserves for all actions other than actions instituted for non-pecuniary damages and risks that are not covered by insurance policies. Since most of these kinds of important claims are transferred to reinsurance companies through optional agreements, amounts net of reinsurer's share do not have a significant effect on the Group's financial position.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TRY))

30. Information about consolidated partnerships

Additional information about consolidated partnerships and shareholding interests as of December 31, 2016 and December 31, 2015 is as follows:

December 31, 2016	***Direct shareholding ratio (%)***	***Indirect shareholding ratio (%)***
Subsidiaries		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.16	51.16
December 31, 2015	***Direct shareholding ratio (%)***	***Indirect shareholding ratio (%)***
Subsidiaries		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.16	51.16

31. Post-reporting events

At the Extraordinary General Assembly Meeting held on April 27, 2017, it has been decided to increase the authorized capital of Türk Bankası Ltd. to TRY 82,000,000.

On 27 April 2017, the Group secured € 5,000,000 of financing to support the import and export business of the European Bank for Reconstruction and Development under the Foreign Trade Support Program ("TFP").