



İşbank has been contributing to the advancement of the economy and social life for 92 years in Turkey.

Achieving self-progress while extending support to development since 1924, İşbank, today, takes on new generation banking and digitization initiatives in keeping with the current requirements and moves ahead with sure-footed steps.

# Contents

## INTRODUCTION

- 02 Corporate Profile
- 04 İşbank in Figures
- 06 İşbank's Vision, Objectives, Values and Strategy
- 08 İşbank Since 1924
- 09 Firsts and Innovations

## ACTIVITIES

- 10 Chairman's Message
- 14 CEO's Message
- 18 The Global Economy
- 20 The Turkish Economy
- 22 Banking Sector
- 24 İşbank and its Activities in 2016
- 50 Subsidiaries
- 54 Corporate Social Responsibility Activities
- 58 İşbank and Sustainability
- 59 Annual Report Compliance Opinion

## CORPORATE GOVERNANCE

- 60 İşbank's Dividend Distribution Policy
- 61 Agenda of the Annual General Meeting
- 62 Summary Report of the Board of Directors
- 63 Dividend Distribution Proposal
- 64 Board of Directors
- 66 Executive Committee
- 68 Organization Chart
- 70 Changes in the Organizational Structure
- 70 Managers of Internal Systems
- 70 Information about the Meetings of the Board of Directors
- 71 İşbank Committees
- 75 Human Resources Practices at İşbank
- 76 Information on the Transactions Carried out with İşbank's Risk Group
- 76 Activities for Which Support Services are Received in Accordance with the Regulation on Procurement of Support Services for Banks
- 77 Corporate Governance Principles Compliance Report
- 84 Audit Committee's Assessments on the Operation of Internal Control, Internal Audit and Risk Management Systems and Its Activities in the Reported Period
- 86 Explanations on Financial Condition, Profitability and Solvency
- 87 Information on Risk Management Policies Applied Per Risk Types
- 90 İşbank Credit Ratings

Annual General Meeting Documents

## FINANCIAL INFORMATION AND RISK MANAGEMENT

- 91 Unconsolidated Financial Statements as at and for the Year Ended 31 December 2016 with Independent Audit's Report Thereon
- 183 Consolidated Financial Statements as at and for the Year Ended 31 December 2016 with Independent Audit's Report Thereon
- 286 Financial Highlights and Key Ratios for the Five-Year Period
- 288 Direct and Indirect Subsidiaries
- 292 Changes in Share Percentages in Subsidiaries
- 293 Amendments in the Articles of Incorporation in 2016
- 296 Information to Shareholders

# Corporate Profile

İşbank keeps standing by its customers in all of its business lines with its brand name identified with trust and prestige.

## Turkey's Largest Private Bank

With total assets worth TL 311.6 billion, İşbank is Turkey's largest private bank.

In 2016, İşbank retained its position as Turkey's largest private bank in terms of total assets, total loans, total deposits and shareholders' equity.

İşbank has the largest branch network among private banks with 1,351 domestic branches and the largest ATM network in the sector with 6,527 ATMs in total.

Its extensive service network allows İşbank to rapidly and effectively respond to customer needs.

## The Bank of "Firsts"

Playing a pioneering role in the Turkish banking sector since its incorporation, İşbank continues to focus on the future and innovation, as it always has.

Carrying on with its investment in technology uninterrupted, İşbank targets to be the bank closest to its customers with its innovative products and applications, inspiring projects and advanced distribution channels.

Running its operations with an innovative approach since 1924, İşbank, being Turkey's pioneer bank, has introduced a number of firsts to the Turkish people including the first ATM, the first Internet Branch and the first mobile banking application.

## Sustainable and Solid Financial Structure

İşbank maintains its solid capitalization thanks to its healthy growth strategy.

The leader among private banks with its shareholders' equity amounting to TL 36.0 billion, İşbank has a capital adequacy ratio of 15.2% as of end-2016, a figure much higher than the legal requirement.

# TL 311.6 billion

Turkey's largest private bank in terms of total assets

# TL 36.0 billion

Leader among privately-owned banks in terms of shareholders' equity

## A Trusted Brand

İşbank stands for trust and prestige in the eyes of its millions of stakeholders.

Associated with sense of trust in the Turkish people, İşbank services approximately 15 million customers with its 24,756 employees.

In 2016, İşbank has been the highest-ranked Turkish bank in The Banker Magazine's list of "Top 1000 World Banks".

## Broad Shareholder Base

İşbank possesses a broad shareholder base.

Having a broad shareholder base, number of İşbank's shareholders made up of individual and institutional investors almost reached 170,000.

Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı (İşbank Personnel Supplementary Pension Fund), an institution which has the membership of nearly 50,000 current and retired bank employees, holds 40.15% of İşbank's capital.

## Contribution to Social Development

İşbank contributes to the development of the Turkish society with the social responsibility projects it carries out.

İşbank takes on initiatives aimed at social progress in line with the country's needs and regards corporate social responsibility as a valuable tool complementing its economic mission.

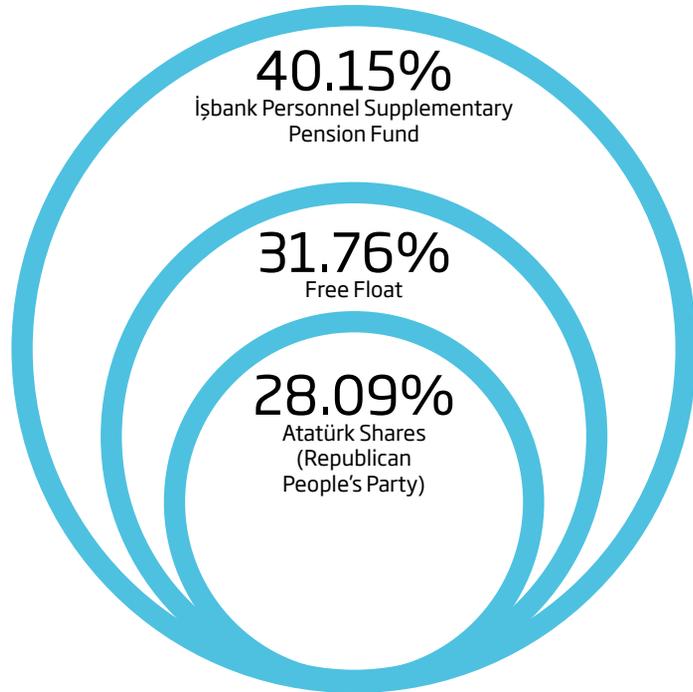
Through far-reaching, sustainable social responsibility initiatives, İşbank signs its name under projects and activities that will contribute to the lives of the future generations in various fields.

# İşbank in Figures

During 2016, İşbank kept strengthening its place in the financial and commercial lives of its millions of customers with its contemporary banking practices.

İşbank has been contributing to Turkey's sustainable growth ever since its incorporation.

## Shareholding Structure (\*)



## Amendments in the Articles of Incorporation

At the Annual General Meeting convened on 28 March 2016, Article 5 of the Articles of Incorporation was amended to reflect the modified duration of the Bank's authorized capital ceiling and Article 58 was amended to achieve alignment with the altered provisions in the related legislation. Former and new versions of amended articles are contained in pages 293-295 of the Annual Report.

(\*) The shareholding structure is provided as at on 31 December 2016. No changes occurred in the shareholding structure during the reporting period.

One of the foundation stones of economic development in Turkey since 1924, İşbank stands by all the industries from financial services to agriculture and works to improve the society's welfare.

# TL 311.6 billion

In 2016, İşbank reached TL 311.6 billion in total assets.

## Key Financial Highlights (TL Million)

	31.12.2016	31.12.2015	Change (%)
Total Assets	311,626	275,718	13.0
Loans	203,144	177,037	14.7
Deposits	177,360	153,802	15.3
Shareholders' Equity	35,961	32,035	12.3

# TL 203.1 billion

In 2016, İşbank's total loans amounted to TL 203.1 billion.

## Key Financial Ratios (%)

	31.12.2016	31.12.2015
Interest Earning Assets (*) / Total Assets	91.5	91.3
Loans / Total Assets	65.2	64.2
Loans / Deposits	114.5	115.1
NPL Ratio	2.4	2.0
NPL Coverage Ratio	77.5	75.1
Demand Deposits / Total Deposits	24.6	22.6
Shareholders' Equity / Total Liabilities	11.5	11.6
Capital Adequacy Ratio	15.2	15.6
Return on Average Equity (ROAE)	13.7	10.4

# TL 177.4 billion

In 2016, İşbank's total deposits were worth TL 177.4 billion.

(\*) Interest earning assets include TL and FC legal reserves.

# İşbank's Vision, Objectives, Values and Strategy

## Our Vision

To be the most preferred bank in Turkey by customers, shareholders and employees by maintaining our leading, pioneering and trusted position as the regional financial power.

## Our Objectives

### For our customers;

- to be the bank that is the most preferred service provider in all the sectors and customer groups that we target
- to provide our customers comprehensive, reliable and high quality service with our competent employees, extensive branch network and non-branch banking channels
- to abide by our high business ethics and principles without compromise

### For our shareholders;

- to consistently increase the value of our shares
- to operate with an effective risk management approach

### For our employees;

- to be a preferred employer and to offer our employees programs and training opportunities that will foster their personal and professional development
- to propagate of our customer focused approach among all our personnel
- to support and encourage loyalty, assuming responsibility and creativity
- to deploy an employee hiring, evaluation, appointment and advancement system that is based on competencies and performance and that is fair and trustworthy

### In summary,

İşbank's goal is "to consistently increase the value it creates for shareholders, as a bank that responds to customer needs quickly, effectively and with high-quality solutions and that encourages its employees to achieve a high level of performance in their jobs."

### Our Values

Our values that represent our corporate identity, guide us to reach our vision and objectives, and that are internalized by our employees as their way of work and life, have been defined as "Leadership, that is powered by a Shared Mindset generated in Solidarity, and that is Trusted under all conditions with a strong Service orientation."

### Our Strategy

Our strategy is achieving sustainable and profitable growth based on "the bank closest to customers" philosophy in an effort to fulfill our vision and objectives.

## Introduction

# İşbank Since 1924

Being differentiated by innovations and services it has provided, İşbank has maintained its strong and stable growth from 1924 to 2016.

İşbank initiated the Digital Transformation Program in 2015 in order to become the closest bank to the customers on digital platforms and better define its digital transformation journey on its business models.

In keeping with its founding mission, İşbank has aimed to accept even the smallest amount of savings and to put it toward economic development.

Beginning to expand into a country-wide branch network upon its foundation, İşbank was also the first Turkish bank to establish branches abroad, with the first international branches opening in 1932 in Hamburg, Germany and Alexandria, Egypt.

In 1950s, İşbank focused on developing its equity participations portfolio.

As İşbank's equity participations became drivers of Turkish industry, the Bank supplied resources in the form of capital and financing to a number of industries with a focus on manufacturing. In 1960s and 1970s, İşbank accelerated the pace of the branch network expansion at the national level. In 1980s, the Bank focused on increasing the number of overseas branches.

At İşbank, the 1980s were characterized by the growing importance of multichannel banking and the Bank started offering an even broader range of products and services to customers.

In 1982, İşbank introduced the first ATMs to the Turkish market. Its ATM, named "Bankamatik", became the generic name for automatic teller machines in Turkey.

İşbank further solidified the Bank's position as the sector's pioneer in alternative distribution channels when it launched the country's first telephone banking service, "Mavi Hat (Blueline)" in 1991, and Turkey's first online branch in 1997.

In subsequent years, İşbank continued to move forward by improving service quality and by developing products tailored to customer expectations. In parallel with these innovations, the Bank also focused on R&D efforts and made maximum use of new technology.

Maintaining strong and stable growth, İşbank relocated the Bank's headquarters from Ankara to İstanbul in 2000.

In 2006, İşbank initiated the Customer-Centric Transformation (MOD) program, aimed at restructuring the Bank with a customer-focused approach. Under this program, many projects and initiatives that resulted in truly revolutionary changes were successfully completed.

In line with rapid advances in technology, İşbank continued to improve the innovative multi-channel banking network, allowing customers to utilize the most suitable channel to perform any banking transaction conveniently, quickly and reliably, 24 hours a day, 7 days a week.

Initiating the customer-centered Digital Transformation Program with the vision of becoming "Turkey's Best Digital Bank", İşbank founded MaxiTech in Silicon Valley in 2016 which will provide support to digital transformation. Besides, Innovation Committee was established at İşbank in order to provide extending innovation culture and carrying on with innovation process continually.

İşbank, implemented its Sustainability Management System in 2015, continued its sustainability activities in activities in accordance with its Sustainability Management System, and also consolidated its place at the Borsa İstanbul (BIST) Sustainability Index.

# Firsts and Innovations

Having pioneered the change and been the author of numerous firsts in the banking sector, İşbank also continued in 2016 to carry out innovative activities that stand out as exemplary in the sector.

## İşbank;

- Developed and introduced the “Money Box” account to Turkey to foster a culture of savings.
- Introduced the first use of cheques as a convenient means of carrying out regular payments.
- Launched electronic banking in Turkey, with the introduction of the country’s first ATMs: Bankamatik.
- Became the first Turkish bank to open branches in Europe and T.R.N.C.
- Rolled out the first investment account service in the Turkish financial services industry.
- Launched Turkey’s first mutual fund.
- Became Turkey’s first bank to introduce trading services of investment securities.
- Initiated the first interactive telephone banking service.
- Opened the first online branch.
- Introduced the first WAP mobile banking service.
- Developed and rolled out the first application-based native mobile banking service (İşCep) for customers.
- Offered the first term deposit product for customers in Turkey, “Floating Account” whose yields are indexed to the TRLIBOR market.
- Turkey’s first social responsibility-focused mutual fund, “TEMA Environment Fund,” investing in environmentally friendly companies.
- Launched the “Environmentally Friendly Housing Loan” product to support the development of environmentally friendly technologies in the housing sector.
- Introduced Mobile Signature, enabling customers to pay off loans without having to visit a branch and to withdraw cash, without using a debit or credit card.
- The integrated “Mobil Borsa” feature within İşCep gives access to real-time stock exchange data and allows stock exchange transactions in that without a dedicated application.
- Developed and introduced “Mobile Key (Cep Anahtar),” a mobile phone application that strengthens the transaction security of the online branch and mobile banking channels, and also enables cash withdrawals from Bankamatik (ATMs) without the need for a card.
- Developed and launched the World’s first Bio-ID POS using fingervein-ID to authenticate a user’s identity.
- Developed and deployed an interactive messaging system that transforms POS terminals into two-way communication channels.
- Developed “Üstü Kalsın (Keep the Change)” an innovative application that helps customers grow their savings by rounding up outstanding credit card debt balances to a specified limit, and uses the difference to purchase mutual fund shares.
- Developed the “Kur Korumalı (Opsiyonlu) Döviz Kredisi (Exchange Rate Protected Foreign Currency Loan with Option),” a foreign currency loan with a guaranteed exchange rate option that protects the borrower against excessive increases in the exchange rate; “Sabit Faizli Rotatif (BCH) Kredi (Fixed Rate Revolving Loan),” a fixed-interest-rate revolving line of credit for those who do not want to be affected by fluctuating interest rates; and Chinese Yuan credit and loans for customers who conduct business with China.
- Introduced the “Temassız Kartla Para Çekme (Money Withdrawal by Contactless Card),” a contactless card application that enables users to withdraw cash with a single key press.
- Designed and opened a specialized branch with a completely different and unique structure to deliver services exclusively to companies backed by foreign capital, which is an unprecedented service offering in Turkey.
- Developed and launched the “Parakod” application that employs QR code technology to allow İşbank customers to use their mobile phones to purchase any product or service either online without entering any card data, or from retail stores without using a credit card.
- Became the first privately-owned bank in Turkey to introduce the 2B Loan.
- Launched the “Şipşak” product that allows customers to carry out instant shopping by scanning a QR code in print media, such as newspapers, magazines, banners or catalogues.
- Added the “Müzekart (Museum Card)” feature to credit cards, providing customers the opportunity to visit museums or archeological sites -which are operated by the Ministry of Culture and Tourism of the Republic of Turkey- free of charge for one month every year.
- Introduced the “İşCepMatik”, which is a new generation ATM device designed for its customers, allowing them to withdraw cash through Bluetooth or QR code technologies without having to carry an ATM card or entering a passcode.
- Became the first bank working online in Turkey that has been integrated into the invoice registry center with the “Supplier Financing” application that allows customers to use invoice amounts before their terms by discounting.
- Launched “Exporter Card” product which is specifically designed for SMEs who make their export transactions via the Bank.
- Launched “Sosyal Hesap” (Social Account) whereby İşCep users can ask for a money transfer for meals, presents, entertainment, school fees and similar purposes into a designated account from their families and friends, or whereby they can quickly respond to such requests.

# Chairman's Message



As some of the developments in 2016 caused fluctuations in global markets, currencies suffered from sudden changes in their values and economic activity lost pace.

H. Ersin Özince  
Chairman of the Board of Directors

# 2016

A key year for the World and for Turkey

The Turkish economy expanded by 2.2% in the first three quarters of 2016.

Esteemed shareholders,

**2016 has been a year packed with volatilities and marked by unforeseeable events for the global and Turkish economies.**

As some of the events of the reporting period gave rise to fluctuations in global markets, currencies suffered from sudden changes in their values and economic activity lost pace.

The first surprise came from the UK, where the referendum result turned out to be in favor of exiting the European Union (EU) membership. Having gone down in history as "Brexit", this development led to fluctuations in global markets, while also leading to further questioning of the future of the EU.

The US presidential election was another topic that substantially occupied the world agenda in 2016. Post-election policies to be pursued by the US, being the biggest player in global economy, may trigger new volatilities in global markets and the US Federal Reserve (the Fed) may have to move to faster pace of rate hikes.

This incident that occurred in the last quarter of the year exposed the global economy, which couldn't reach the growth performance before the 2008 crisis yet, to a new phase of uncertainty. The US Dollar has strengthened significantly against both developed and emerging market currencies.

**The Turkish economy expanded by 2.2% in the first three quarters of 2016.**

Having confronted risks originating both in and out of the country in 2016, the Turkish economy succeeded in growing by 4.5% in the first two quarters of the year. However, the economy contracted by 1.8% on an annual basis in the third quarter, with the added impact of the coup attempt in July. Economic growth for the first three quarters stood at 2.2%.

While these developments slowed down domestic demand, the measures taken by the economy administration to support economic activity and the accelerated public spending, have been the factors that restricted the shrinkage in economy.

Despite all the negative events, Turkey's public finance preserved its strong outlook in 2016. Fiscal discipline was maintained, hence it is predicted that the fiscal policy will support growth in the coming period.

## Chairman's Message

Aiming to always lead the industry and be a trendsetter, our Bank carries on its activities intensely, ready for the future with its solid faith in Turkey and the Turkish people.

**Despite the slowdown in global economy, the Turkish banking industry sustained its growth trend in 2016.**

The overall banking industry secured approximately 16.1% rise in total assets in 2016 in spite of the decelerated global economic growth, increased geopolitical risks in its neighbours and the impact of these events on Turkey's macroeconomic balances.

Loss of pace in domestic demand in the third quarter of the year slowed down the loan volume growth. However, loans have recovered to a certain extent owing to the decisions taken thereafter and the impact of the loosening macro-prudential measures regarding retail loans.

Security issuances and international borrowings, as well as deposits that make up the primary funding resource, continued to serve as the sources of the financing needed by the industry. Despite the downgrades of Turkey's ratings in the second half of 2016, Turkish banks continued to receive international financing without any problems, a fact that once again confirmed the creditworthiness of the Turkish banking industry.

**İsbank celebrated its 92nd year in 2016.**

İsbank, one of the vital economic achievements of the Republican Period in Turkey, has reached its 92nd year in 2016, all the while abiding by its founding mission defined as "contributing to the foundation and development of Turkey".

Aiming to always lead the industry and be a trendsetter, our Bank carries on its activities intensely, ready for the future with its solid faith in Turkey and the Turkish people.

Supporting the development and the future of the domestic manufacturing industry with banking products, services and solutions no matter what the global and domestic market conditions are, İsbank touches the lives of its millions of customers at multiple points via its extensive domestic and international service network, works constantly to enhance their welfare and produces lasting values for its stakeholders.

In this context, we have added momentum to our efforts for upgrading our services to new dimensions in the recent period. As "Turkey's Bank", we are fully focused on the Digital Transformation Program, which will enable us to offer customized solutions that will make our customers' lives easier any time when they have a

92

İşbank celebrated its 92nd year in 2016.

Based on our faith in the strength of the Turkish economy and social dynamism, we are envisaging a bright future for our country and our people.

need and which will further upgrade their experience at all contact points, in general and in mobile banking, in particular.

İşbank keeps supporting social advancement with its deep-rooted commitment to social responsibility. Ever since its foundation, İşbank has been contributing to the development of social life, as well as economic development. Our Bank carries out projects in the areas of education, environment, culture and the arts via long-lived, far-reaching and sustainable social responsibility initiatives that are aligned with the needs of our country and our people.

İşbank prioritizes and puts our children, the future of our country, in the center of its social responsibility efforts. In this context, we strongly believe in the importance of acquiring the habit to read and investigate at early ages.

Under the campaign "One Million Books, One Million Children" launched in 2008, we are giving out books as gifts to primary and secondary school students at the start of summer vacation every year. I would like to proudly state that, within the frame of this initiative that sets a worldwide example, we have delivered more than 11 million books to our children all over Turkey as of 2016 year-end.

Another milestone in 2016 was the 60th year celebration of our publishing house, Türkiye İş Bankası Kültür Yayınları. Holding an esteemed position in the publishing world with its long background, Kültür Yayınları stands as one of the building blocks of the Turkish publishing history.

### Future outlook

Based on our faith in the strength of the Turkish economy and social dynamism, we are forecasting a bright future for our country and our people.

In line with our indispensable position in the Turkish economy, we are determined to use all our assets, tangible and intangible, to serve the national economy and our people. İşbank's contribution to the sustainable development and growth of the Turkish economy will continue at an increasing extent in the short, medium and long-terms.

On behalf of our Board of Directors and myself, I would like to take this opportunity to extend my sincere thanks to all our stakeholders and notably, to İşbank employees who have helped bring our Bank to the point it stands today.

Yours sincerely,



**H. Ersin Özince**  
Chairman of the Board of Directors

## CEO's Message



The successful results we have attained in our 92nd year make us stronger and let us hold a more determined outlook for the future.

**Adnan Bali**  
Chief Executive Officer

15.3%

İşbank increased its total deposits by 15.3% in 2016.

266.8

İşbank's support to the economy through loans has reached TL 266.8 billion as at year-end.

13.0%

İşbank's total assets expanded by 13.0% in 2016.

The power of İşbank is the power of Turkey and the profit of İşbank is the profit of Turkey, it is to the benefit of Turkey.

Esteemed shareholders, customers, employees and business partners of İşbank,

Being an extremely active and turbulent year for the whole world, 2016 has been the scene to major events both in Turkey and abroad. The UK has begun the process of exiting the EU as voted in the referendum, the developments related to the US presidential election, changes in the US Federal Reserve's (the Fed) monetary policy and future projections and the uncertainties right at our doorstep in the Middle East have characterized 2016 as a tough year for the whole world. Within our national borders, amid the extraordinary circumstances in the aftermath of the atrocious coup attempt of July 15th in particular, Turkish banks that act as the engine of our economy have focused on extending support to the manufacturing industry with more determination than ever before, with their robust financial structures and their competence in crisis management. At this stage, our Bank once again showed that it is ready to make sacrifices for our country under any circumstances. In a year of such extraordinary and highly unexpected occurrences in and out of the country, İşbank succeeded in securing highly successful results both in terms of growth and profitability and was also able to preserve its asset quality and capital adequacy, with the help of dynamic policies implemented against the shifting priorities during the year. In an environment where our country was unfortunately lost its investment grade rating and the TL depreciated excessively due to a number of adverse developments,

our Bank was able to increase its net profit from TL 3.1 billion to TL 4.7 billion in the 12 months to end-2016 on one hand and to keep its capital adequacy ratio above 15.2% on the other, while it carried on with its banking business function in a constructive approach. This strong contribution to our shareholders' equity in such a tough period is of utmost value for our Bank and for our country alike, because we believe that the power of İşbank is the power of Turkey and the profit of İşbank is the profit of Turkey; it is to the benefit of Turkey.

**İşbank has been the greatest supporter of the Turkish economy for 92 years.**

Once again in 2016, our Bank was able to take place in the top ranks of the sector with its robust financial structure, high quality corporate governance, professional human resource, extensive physical and digital service network and powerful affiliates operating in different segments of the financial services sector. While attaining all of the targets we have set for the year, we remained Turkey's largest privately-owned bank in 2016 that marked our 92nd anniversary. As we pursued our operations during the reporting period, we were keenly aware of our responsibilities towards our country and our customers and provided services and financing support to a broad base ranging from individuals to SMEs, from commercial businesses to Turkey's large-scale investments. As our successful performance reflected also on our figures, İşbank's total assets went up by 13.0% year-to-year to TL 311.6 billion at year-end

## CEO's Message

We firmly believe that every step we take and every project we conduct in relation to digital transformation and innovation will not only upgrade customer experience, but will also grow the added value we produce and offer to our stakeholders.

2016. In the same period, cash and non-cash loans extended increased to TL 203.1 billion and TL 63.6 billion, respectively. As of 2016, our total support to the economy through loans was 266.8 billion.

Within this context, there is one point which I believe is crucial and needs to be underlined: the funding we allocate to the SMEs, or the capillaries of the economy as we refer to them. Our Bank has traditionally been supporting the SMEs with versatile credit and service packages and contributing to the futures of small and medium-sized enterprises with its high value-added advisory approach. As at year-end 2016, the total amount of loans İsbank made available to the SMEs increased to TL 44.3 billion.

Households, in other words our retail customers make up another group of our stakeholders. Through its countrywide branch network and digital service platforms, our Bank meets the financial needs of its millions of retail customers and helps build a strong and prosperous future. As we continued to meet our customers' demands through cash, housing and auto loans in 2016, our total consumer loans grew by 9.6% as compared with year-end 2015 and reached TL 39.9 billion. Amid the tough conditions of 2016, İsbank expanded its total deposits by 15.3% to TL 177.4 billion. Versatile banking services that we deliver via our advanced technology and digital channels have played an important role in our achievements. In the same period, our Bank consolidated its leadership among private banks with its shareholders' equity

that went up to TL 36.0 billion. As in the previous years, İsbank successfully kept the ratio of non-performing loans to total loans at 2.4%, below the sector's average and the NPL ratio in all loan categories remained below the sector's average.

**Our target is to be Turkey's best digital bank.**

İsbank initiated a transformation process with the target of being Turkey's best digital bank. Along this line, we have created our digital transformation roadmap, which is aimed at end-to-end digitization of all our processes and delivering the best possible experience to our customers. To this end, necessary organizational changes have been introduced successfully. The first area we have focused within the scope of digital transformation is continuous improvement of customer experience. Our ultimate goal in this respect is to reach a mutually complementary, integrated customer experience level presenting consistent physical and digital experiences and to meet customer needs and expectations at the most suitable time in a personalized, fast and easily-accessible way. One of the main pillars of our digital transformation is the advanced data analytics activities that are underway. These initiatives that increase the number, diversity and depth of the analytic models we are using grant us the opportunity to gain an insight into our broad customer base. We firmly believe that every step we take and every project we conduct in relation to digital transformation and innovation will not only upgrade customer experience, but

# Turkey

İşbank is working for the future of Turkey.

We will focus on sustainable growth no matter what the circumstances may be and we will maintain our support to households together with all the economic actors generating added value also in 2017.

will also grow the added value we produce and offer to our stakeholders. One of the founders and pioneers of digital banking in Turkey, İşbank further cemented its position in the sector with the transaction volumes and number of customers it has reached in 2016. During the reporting period, the number of our Bank's mobile banking customers rose by 53.1% and went beyond 3.6 million people.

### **We are an active and prestigious player in international markets.**

During 2016, İşbank continued to make effective use of non-deposit funding sources and renewed its matured facilities despite the tough market conditions thanks to its deep-rooted history, experience and prestigious stance in the international syndication markets and secured a total financing of USD 2.4 billion. Being a leader as well as maintaining its pioneering position in Eurobond issues, our Bank successfully completed 39 issuances with a total nominal amount of USD 1,997 million under its Medium Term Note Program that the Bank has been actively using since 2013. In the coming period, we will continue to make an effective use of international borrowing instruments with good timing and at optimum costs.

### **We are set to work harder for Turkey's future, putting all our resources to use.**

The incidents of 2016 pointed at the vitality of the right reaction by banks on the back of proactive decisions in view of rapidly unfolding events and the need for being organized, visionary and in full command of the details. İşbank will continue to fulfill the duty that falls upon it with its own style of doing business that is sincere, committed, and suited to our country's fabric and stand by its customers in good and bad days. Also in 2017, we will focus on sustainable growth no matter what the circumstances may be and we will maintain our support to households together with all the economic actors generating added value. On behalf of "Turkey's Bank", I would like to thank our shareholders, customers, domestic and foreign business partners and last but not least, our employees, who played the biggest part in making these results possible.

Yours sincerely,



**Adnan Bali**  
Chief Executive Officer

# The Global Economy

Economic activity in emerging countries remained flat while economic growth rates lost some pace in developed countries.

## Loss of momentum in global economy persisted through 2016.

In 2016, the monetary policies by developed countries' central banks, particularly by the US Federal Reserve (the Fed), the UK decision to exit the European Union (Brexit), the US presidential election, heightened geopolitical risks, the performance of the Chinese economy and the course of oil prices were at the top of the global economic agenda. Brexit posed significant risks to global economy. Majority of developed countries carried on with extraordinarily loose monetary policies in an effort to support the economy. Partial recovery tendency in commodity prices, particularly in oil prices, somewhat alleviated the pressure on the economies of commodity exporting countries. In this framework, growth rates of emerging countries remained flat in 2016, whereas economic activity lost pace in developed countries. Hence, global economic activity decelerated, albeit to a small extent, compared with 2015.

## The Fed hiked interest rates by 25 basis points.

Brexit, which increased uncertainty over the global economic outlook, has been a factor that led the Fed to postpone its rate hike decision. On the other hand, US economic growth gained pace from the middle of 2016 and labor and inflation indicators painted a positive picture. In

light of these developments, the Fed increased its policy interest rate by 25 basis points in December. Furthermore, the fact that the US presidential election was won by the candidate whose campaign promises included loose fiscal policies such as lower tax rates and encouragement of consumption expenditures strengthened the anticipation that economic growth will gain momentum and inflation will follow an uptrend in the country.

## European Central Bank (ECB) and Bank of Japan (BOJ) pursued a negative interest rate policy.

Majority of developed countries carried on with extraordinarily loose monetary policies in an effort to revive economic activity that has yet to capture permanent upward momentum after the global crisis.

Significantly increased political uncertainties in Europe created additional pressure on economic activity. In the Eurozone and Japan where economic growth followed a relatively flat course, central banks adopted a negative interest rate policy. However, failure to attain the desired results brought up discussions over the need to introduce fiscal policies and structural reforms.

55

Brent-oil price per barrel topped USD 55 at the end of 2016.

During 2017, the decisions taken by the Fed, as well as by the central banks of other developed countries and forecast for their decisions will be watched closely.

### Energy and commodity prices recovered.

Oil prices that kept falling in 2015 due to weak global demand conditions and continued supply increase recovered partially in the second half of 2016. This recovery was driven by the fall in oil production to secure demand-supply balance and the relatively stable outlook of the Chinese economy.

Oil prices picked up after OPEC member countries agreed to reduce their production quotas in the last months of the year and other producers declared that they would also comply with the decision. Around USD 27 at the start of 2016, Brent-oil price per barrel topped USD 55 at the end of the year.

### Future outlook

During 2017, the decisions taken by the Fed, as well as by the central banks of other developed countries and forecasts for them will be watched closely. Furthermore, the protective policies that may be implemented by the new administration in the US, the anti-EU tendencies gaining strength in Europe following Brexit and growing geopolitical risks in the Middle East might put pressure on global economy.

Commodity prices, primarily oil prices, are anticipated to come under pressure in line with the ongoing global risks, despite the oil producing countries' decision to cut production. The monetary policy normalization process of the Fed is expected to be gradual so as not to exert additional pressure on economic activity due to the uncertainties regarding the global economic outlook.

In the Eurozone and Japan, on the other hand, expansionary monetary policies are anticipated to continue. Taking into consideration that fiscal policies can be used to support worldwide economic activity, as the monetary policies proved to be inadequate, the global economy is expected to show partial recovery in 2017.

# The Turkish Economy

The growth rate of the Turkish economy that was exposed to major risks rooted in and out of Turkey declined to 2.2% for the first 9 months.

## Macroeconomic developments in 2016

### The public sector's contribution to growth increased.

Exposed to major risks rooted in and out of Turkey in recent years, the Turkish economy displayed a growth performance of 4.5% in the first two quarters of 2016. While public spending accelerated in this period, consumption expenditures also grew. In the third quarter of the year, however, the economy contracted for the first time after 27 quarters of uninterrupted positive growth owing to the uncertainties that resulted from the political developments. Having shrunk by 1.8% in the third quarter, economic growth rate for the first nine months declined to 2.2%.

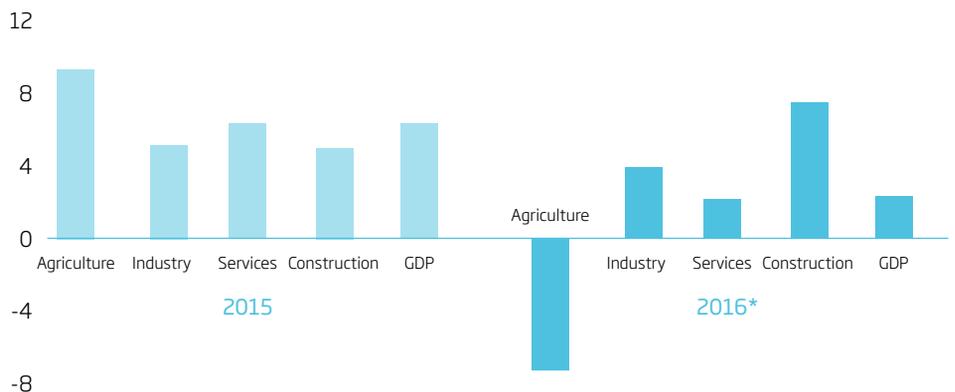
The narrowing trend in exports and imports volume continued during 2016. The fall in import volume was led by ongoing low energy prices. Export volume, on the other hand, was weak due to geopolitical

developments, despite the gradual recovery in European economies. In 2016, imports and exports fell by 0.9% and 4.2% on an annual basis, respectively. As a result, foreign trade deficit in this period decreased by 11.7% to USD 56 billion. In spite of the lower foreign trade deficit, current account deficit widened somewhat because of the alleviated effect of energy prices and declined tourism revenues. In 2016, current account deficit amounted to USD 32.6 billion.

### The budget realizations were aligned with the targets.

Fiscal discipline continued to make up the strong muscle of the Turkish economy in 2016. In this period, budget expenditures went up by 15.3% on a year-to-year basis. Budget revenues increased by 14.8%, driven also by the tax regulations. Throughout the year, budget realizations were aligned with the targets.

GDP - Sectoral Growth Rates (%)



(\*) As of January-September.

# 8.5%

CPI increase for 2016

Fiscal discipline continued to make up the strong muscle of the Turkish economy in 2016.

### Inflation exhibited a downtrend in the second half of the year.

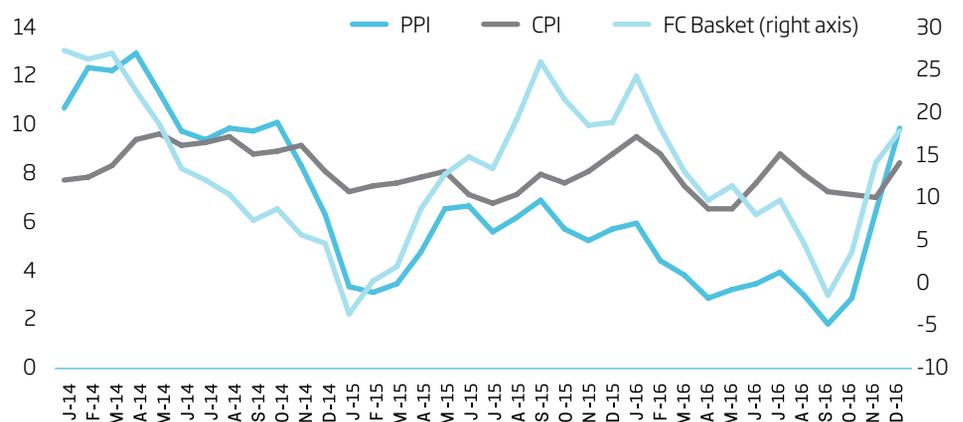
While the strong rise in food prices in the first half of 2016 pushed inflation higher, the reversal of this tendency in the second half of the year reflected positively on inflation indicators. The annual increase in CPI was registered as 8.5% in December. On the other hand, the improvement trend that became pronounced from August in core inflation indicators came to an end.

### Central Bank of the Republic of Turkey (CBRT) maintains its cautious monetary policy stance.

In accordance with the roadmap announced in August 2015, the CBRT initiated simplification steps in its monetary policy from March 2016. The CBRT decreased the overnight lending rate (marginal funding rate), the upper band of the interest rate corridor, by a total of 250 basis points in the

March-September period. Having kept its interest rate policy unchanged in October, the CBRT stated that the simplification steps were completed to a large extent and it was quite close to the point of funding via a single rate. In November, however, the CBRT increased the upper band of the interest rate corridor and policy rate by 25 and 50 basis points, respectively, in response to the increased volatility of exchange rates, thereby implementing a measured tightening in the monetary policy. Consequently, marginal funding rate was 8.50%, borrowing rate was 7.25% and one-week repo rate was 8%. The weighted average funding cost of the CBRT, on the other hand, which had gone down to 7.7% owing to the CBRT's rate cut decisions, was back to 8.3% in December.

CPI and FC Basket (\*)  
(Monthly Annualized Changes, %)



(\*) Currency Basket (0.5\*€+0.5\*USD) is calculated using monthly average currency rates of CBRT.

# Banking Sector

Preserved profitability in parallel with healthy growth has played a major role in the sustained robust capital structure of the banking sector.

## Slowdown in lending growth

Total assets of the banking sector increased by 16.1% compared to the end-2015 and amounted to TL 2,598(\*\*) billion.

Declined weighted average funding cost of the Central Bank of the Republic of Turkey (CBRT) in 2016, coupled with the regulations on reserve requirements, affected funding costs in the banking sector positively. On the other hand, the credit demand performed weakly in the first nine months of the year. The incidents in July put downward pressure on domestic demand, which in turn decelerated the growth rate of loans. However, the decisions adopted in the aftermath of July 15th and particularly the loosened macro-prudential measures on consumer loans in October brought about some recovery in credit demand in the last quarter of the year.

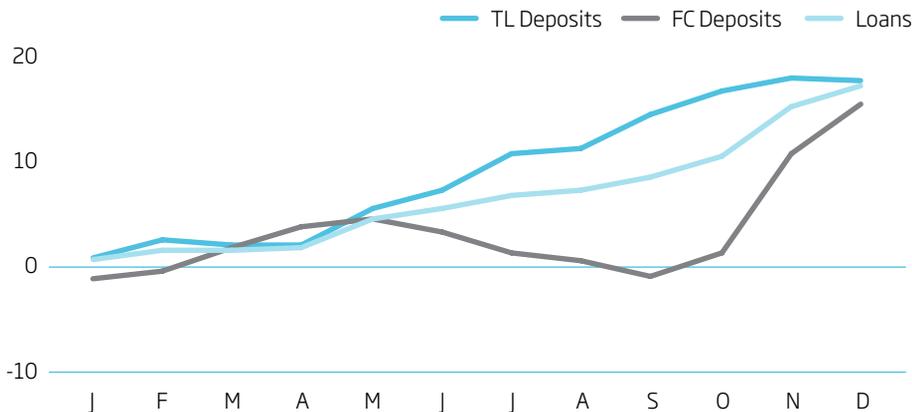
## The banking industry kept diversifying its funding sources.

Deposits made up the main funding source of the banking sector also in 2016. Particularly in the third quarter of the year, there was a strong tendency to move from FC deposits to TL deposits. The sector continued to fulfill the funding need through securities issues and international borrowings, as well as deposits. Although in September, Turkey lost one of the investment grades assigned to her by two rating agencies, the banking sector did not experience any problems in accessing international funds. The long-term debt roll-over ratio of the sector was 109% in 2016.

## The sector preserves its solid outlook.

15.6%(\*\*) at the end of 2015, the capital adequacy ratio of banks was 15.5%(\*\*) in 2016 due to the weak credit demand. Preserved profitability in parallel with healthy growth has played a major role in the sustained solid capital structure in the sector.

Deposits and Loans in 2016 (\*)  
(Change Compared to Year-end, %)



(\*) Source: BRSA Monthly Bulletin

(\*\*) Calculated using monthly sector data published by the Banking Regulation and Supervision Agency. Participation banks are excluded from sector numbers.

15.5%

Sector's capital adequacy ratio as at 2016.

Total assets of the Turkish banking sector increased by 16.1% in 2016 and amounted to TL 2,598 billion.

### Future outlook

#### Growth led by the public sector

In 2017, it is anticipated that economic growth may gain some momentum, but might remain below its potential. In that period, the rise particularly in public spending is expected to support to economic activity. Because of the low ratio of the budget deficit and public debt stock to national income as compared with international norms, this development is not predicted to lead to a significant deterioration of the fiscal indicators. On the other hand, the uptrend in oil prices, ongoing uncertainties in Turkey's primary export destinations and weak performance of tourism revenues may possibly put an upward pressure on the current account deficit. On the inflation front, the course of the TL, the movements in food prices subject to high volatility, the upturn in oil prices and the domestic demand conditions are expected to be the major factors. When the lagged effects of the depreciation in the TL and the partial recovery in energy prices are taken into account, it is projected that 2017 inflation will be higher than that in 2016.

#### Cautious stance in monetary policy

The CBRT is anticipated to maintain its cautious stance in its monetary policy in the period ahead. Monetary policy decisions will most likely to depend on the developments in exchange rates and the outlook of inflation.

#### The banking sector will sustain its growth trend.

During 2017, the capital flows towards emerging countries including Turkey will be led by the decisions of the Fed and central banks of other developed countries, the political developments in Europe that is entering an intense process of elections and geopolitical developments. In view of the fact that low and even negative interest rates will persist in developed countries in general, especially in the Eurozone and Japan, despite the normalization of the US monetary policy, a pronounced tightening is not predicted in global liquidity conditions in the near term.

The recent decisions of the economy administration are anticipated to keep affecting particularly the credit growth performance. While the positive effect of these steps on the banking sector's figures are expected to become more marked in the period ahead, while maintaining asset quality, sustainable and healthy growth and profitability will remain as the priority target of the Turkish banking sector.

Activities

# İsbank and its Activities in 2016

Total assets of İsbank enlarged by 13.0% year-on and amounted to TL 311.6 billion.

İsbank remained the leader among private banks in terms of total assets, total loans, total deposits and shareholders' equity.

Having the broadest distribution network among privately-owned banks with 1,374 branches and 6,527 Bankamatik ATMs as at year-end 2016, İsbank also carried on with its innovative initiatives in digital banking. The number of customers using İşÇep, the mobile banking application, went beyond 3.6 million as at the end of the year.

Total assets of İsbank enlarged by 13.0% year-on and amounted to TL 311.6 billion.

Having grown 14.7% year-on, loans came to TL 203.1 billion and the ratio of loans to total assets reached 65.2%. While 24.9% of İsbank's loan book was made up of retail loans, 75.1% was constituted by corporate, commercial and SME loans.

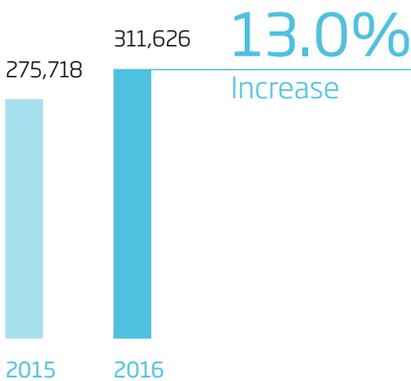
Continuing to remain below the industry's average, the NPL ratio was 2.4% as at year-end 2016.

Total deposits of the Bank grew by 15.3% as compared to year-end 2015 and reached TL 177.4 billion. Ranking first among private banks in terms of total deposits, TL and FC deposits, İsbank preserved its no. 1 spot among private banks also in demand deposits and TL savings deposits.

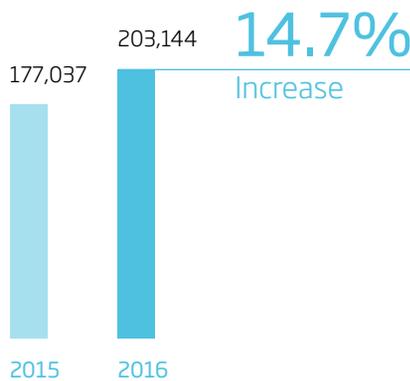
The share of deposits to total liabilities was registered as 56.9% as at year-end 2016. In a bid to diversify its funding sources and control its costs, İsbank kept making use of non-deposit funds, as well. As at year-end 2016, total liabilities was comprised of borrowings by 9.9%, securities issued in domestic and overseas markets by 7.2%, repo transactions by 6.6% and subordinated loans by 1.6%.

İsbank's shareholders' equity enlarged by 12.3% in 2016 and reached TL 36.0 billion. The capital adequacy ratio of the Bank was 15.2% at the end of the year, above the legal requirement.

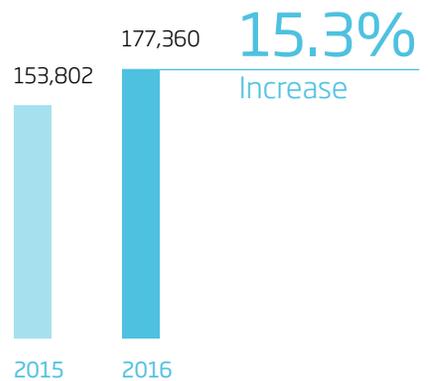
Total Assets  
(TL Million)



Total Loans  
(TL Million)



Total Deposits  
(TL Million)



## TL 36.0 billion

İşbank is the leader among private banks with shareholders' equity amounting to TL 36.0 billion.

Asset Composition (%)	2016	2015
Cash and Banks	11.1	12.0
Securities	16.5	16.2
Loans	65.2	64.2
Associates and Subsidiaries	3.4	3.4
Other	3.8	4.2
<b>Total</b>	<b>100</b>	<b>100</b>

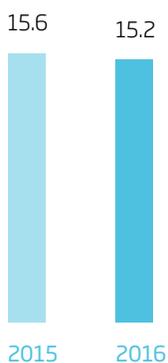
## TL 62.5 billion

TL savings deposits of İşbank reached TL 62.5 billion.

Liability Composition (%)	2016	2015
Deposits	56.9	55.8
Funds Borrowed and Money Market Funds <sup>(*)</sup>	25.3	26.2
Other Liabilities	6.3	6.4
Shareholders' Equity	11.5	11.6
<b>Total</b>	<b>100</b>	<b>100</b>

<sup>(\*)</sup> Includes borrowing instrument issues in TL, FC and subordinated loans.

### Capital Adequacy Ratio (%)



### NPL Ratio (%)



## Activities

## İşbank and its Activities in 2016

Putting great emphasis on building versatile and long-lived relations with its customers within the frame of its corporate banking strategy, İşbank helps its customers strengthen their competitive advantage in domestic and international markets and capitalize on growth opportunities.

**CORPORATE BANKING**

**Underpinning İşbank's success in corporate banking is the Bank's strategy to share its strength, know-how and deeply rooted experience with the client base as a key solutions partner and to stand by its customers under any circumstance.**

İşbank places great emphasis on building versatile and long-term relations with its customers within the frame of its corporate banking strategy. This approach allows the Bank to help effectively its customers sharpen their competitive edge in domestic and international markets and capitalize on growth opportunities.

Extending uninterrupted support to the real sector under any circumstance with its functional product range and financial solutions tailored specifically according to customers and business lines by employing cutting-edge information technology, İşbank succeeded in being the top choice of customers in corporate banking once again in 2016 and consolidated its leading position in the industry.

Under the corporate banking roof, İşbank, remaining loyal to its customer-oriented service notion and uncompromising its maximum customer satisfaction pledge, offers service at 10 dedicated corporate branches equipped with advanced technology and expert teams, four of which are located in İstanbul and at its Multinationals Branch in İstanbul, which is designed to serve exclusively foreign capital companies.

In 2016, İşbank continued to allocate its funds for the operations and needs of its customers and to produce added value for the national economy hand-in-hand with its customers.

İşbank carried on with its activities to correctly analyze the types and qualities of customer needs that differ according to sectors and to custom-tailor solutions to respond to them. In order to enhance customer satisfaction, initiatives continued to improve the speed and quality of the Bank's products and services and to upgrade customized, innovative products and technological infrastructure.

In addition to its quality financing solutions, İşbank participates in a number of projects that drive the national economy through the funds it allocates to the real sector.

**İşbank keeps signing its name under a number of projects that drive the national economy through the funds it allocates to the real sector based on its experience and rational analyses.**

Besides its leadership in project finance, İşbank kept pioneering the formation of the basis of Turkey's economic development in 2016 thanks to its deciding role in the formulation and introduction of project finance structures and its experience in this field.

When assessing investments, İşbank, keeping with its responsibility stemming from its pioneering and leading role, produces financing solutions that contribute added value to the national economy, meets investors' expectations and contributes

# Project finance

İşbank is the leader in project finance.

In 2016, İşbank continued to allocate its funds for the operations and needs of its customers and to produce added value for the national economy hand-in-hand with its customers.

benefits to the country in the long term. The Bank's expert and experienced team possessing sector-specific and technical competencies creates world-class financing packages tailored according to customer needs, giving priority to quality and customer satisfaction.

The Bank allocates significant resources to the financing of acquisition projects within which investments in energy, infrastructure, transportation, manufacturing and contracting that serve as the engines of the national economy take the lead and which also include privatizations. In 2016, İşbank increased its efficiency and preserved its solid position in this field.

In 2016, financing/refinancing deals in the energy sector gained the foreground. The Bank considered new financing requests for its customers' new investments in renewable energy and the privatization of hydroelectric power plants owned by Electricity Generation Co. (EÜAŞ). Refinancing requests for mainly hydroelectric and natural gas projects which had been financed by İşbank in the previous years and for which repayments are underway were also evaluated by the Bank.

Negotiations with investor companies were carried on to ensure that the privatization costs of the EÜAŞ hydroelectric power plants which were transferred to the private sector in 2015 are financed by a consortium of banks including İşbank.

The Bank developed a new loan product named "Unlicensed Electricity Generation Loan", which will be extended to finance

unlicensed electricity generation plant investments with an installed capacity of 1 MW and lower and are powered by solar, wind or other renewable energy.

Ongoing in 2016 were the financing of integrated health campus and city hospital projects, which are developed based on the Public-Private Partnership (PPP) model that has come to the fore in recent years as another remarkable area of investment.

## İşbank keeps winning awards with project finance deals.

In 2016, some projects financed by a consortium of banks including İşbank received awards in the following categories by EMEA Finance, a leading finance magazine in Europe, Middle East and Africa.

- Bilkent Integrated Health Campus Project: "Best Healthcare Deal" and the "Best Social Development Deal"
- Kızılder 3 Geothermal Power Plant Project: "Best Energy Infrastructure Deal"
- Gebze-İzmir Highway Project: "Best Transport Infrastructure Deal"

European Bank for Reconstruction and Development (EBRD) awarded the best energy efficiency and renewable energy projects financed in Turkey through the Mid-size Sustainable Energy Financing Facility (MidSEFF). Edincik Wind Energy Power Plant financed by İşbank was granted the "Largest CO2 Emission Reduction Project Award" and İşbank received the "Sustainable Energy Excellence Award" for speed of disbursement.

## Activities

## İsbank and its Activities in 2016

In 2016, İsbank obtained funds with a total amount of approximately USD 214 million from the European Investment Bank and European Bank for Reconstruction and Development.

### Project finance is expected to preserve its significance in 2017.

İsbank predicts that project finance will preserve its significance also in 2017. The Bank will continue to offer quality financing solutions drawing on its experience in project finance backed by technical and financial analyses. Through the funds made available to the real sector, the Bank will maintain its leading and strong position in project finance in sectors that are key factors with respect to the progress of the national economy.

In 2017, EÜAŞ production portfolio privatizations, investment outlays to be incurred in electricity distribution regions where privatization processes have been completed, privatization and company/share acquisition transactions are anticipated to support the project finance volume of the overall market and of İsbank. Other possible agenda items include continuing city hospital projects based on the PPP (public-private partnership) model and infrastructure investments, energy plant investments that rely mostly on renewable resources led by solar and wind plants and negotiation of portfolio refinancing.

### Cooperation with international institutions in the financing of investments

With the EUR 175 million-fund it has secured from the EBRD and the European Investment Bank (EIB) under MidSEFF, İsbank keeps on-lending to renewable

energy efficiency projects. Under the securitization deals in 2016, the Bank obtained new funds in the amount of USD 111.2 million from EIB and USD 55 million from EBRD and kept channeling them for the financing of its customers' investments. The Bank on-lends the fund secured under the MidSEFF Program to its customers for financing mid-sized investments in renewable energy and industrial energy efficiency. Hence, İsbank extends support to sustainable energy projects that contribute to energy supply in Turkey and that meet specific environmental and social criteria.

In 2016, under the securitization transaction, the Bank obtained a new fund from the EIB in the amount of USD 47.6 million, which will be used to finance SMEs that satisfy the criteria set by the EIB and having 250 to 3,000 employees. Efforts were carried out to extend this facility for funding customers' investments.

Under the agreement between Japan Bank for International Cooperation (JBIC) and İsbank, solutions have been provided for the financing needs of companies importing goods from Japan and of energy projects covering turnkey contractors of Japanese origin.

Under the agreement between the Export Import Bank of Korea (KEXIM) and İsbank, financing opportunities were provided to Korean firms' and to companies doing business with Korean related firms' use in terms of working capital and investment financing.

# Foreign trade

İşbank continues to collaborate with its customers by offering direct, solution-oriented support in foreign trade.

Special solutions devised for multinational companies allowed İşbank customers to manage their transactions in Turkey from abroad.

## Risk and cash management services have been in high demand from the customers also in 2016.

Demand of customers for derivative products and risk management solutions, stemming from increasing sensitivity of risk perceptions on market parameters, continued heavily in 2016, as well.

İşbank develops and offers customized derivative products that protect customers against risks they may face due to uncertainties related to interest rates, exchange rates or commodity prices which are integrated with other banking products, as well.

In 2017, İşbank will keep supporting its customers with its tailor-made derivative products, as well as with its need-based risk management solutions.

## Efficient, easy-to-implement and low-cost cash management solutions

İşbank - provides customized and low-cost cash management solutions that are backed by technology and are easy to implement. Besides, products that directly increase customers' transacting speed, digitization of quickly executed transactions contribute to customers in terms of cost and productivity, while maximizing customer satisfaction.

With the reflection of the renewed payment infrastructure on product processes for cash management products, which cover

collection and payment systems, it is intended to enhance customer satisfaction and improve process performances. At the same time upgraded infrastructure will help lower operational costs and increase overall efficiency.

During 2016, the infrastructure for correspondent charges in foreign currency transfers was reviewed, resulting in increased predictability of transaction fees for the customers. Special solutions designed for multinational companies allowed İşbank customers to manage their transactions in Turkey from abroad. In addition, alternative products were developed for overseas payments of companies during the reporting period.

## İşbank continues to collaborate with foreign trade companies.

İşbank continues to collaborate with its customers by offering direct and solution-oriented support in foreign trade. The Bank also provides custom-tailored solutions in foreign trade finance and foreign trade products.

İşbank remains in command of the trade ecosystem with its team specialized in the delivery of these services, its cutting-edge service infrastructure, extensive correspondent network, innovative approach, broad product and customer range.

The upward trend in İşbank's foreign trade transaction volume and commission income continued through 2016.

## Activities

## İşbank and its Activities in 2016

Through its Commercial Banking products, İşbank sustained its support to Turkish industrialists, tradesmen, SMEs and artisans also during 2016.

**COMMERCIAL BANKING****Full support to commercial banking customers without interruption**

Always standing by the Turkish industrialists, tradesmen, SMEs and artisans in keeping with its founding philosophy, İşbank sustained its support through Commercial Banking products in 2016. Being Turkey's Bank, İşbank took pioneering steps that will support the national economy by lowering interest rates on auto, housing, general-purpose and tradesmen loans and extended more than TL 1.9 billion in commercial loans to tradesmen and small enterprises under the Tradesmen Credit Campaign organized in November and December offering a special rate.

In installment commercial loans, which is the loan type mainly preferred by tradesmen and SMEs for their financing, İşbank preserved its long-going leadership with a market share of 18.1%<sup>(\*)</sup>. The Bank's installment commercial loans portfolio reached a volume of TL 37.3 billion at year-end 2016.

The Bank remained the sector's leader with 25.8%<sup>(\*)</sup> market share in commercial vehicle loans and 22.7%<sup>(\*)</sup> in commercial property loans.

İşbank continues to offer service all around Turkey with its extensive branch network and delivers its commercial banking activities out of its dedicated commercial branches, as well as its combo branches, in a bid to cater to commercial customers'

needs in cities with an intense industrial and commercial life through more efficient and differentiated products and to provide them with a more refined service. Within this context, the Bank carries out its commercial banking activities via a total of 53 commercial branches in 23 cities, including Van Commercial Branch opened in 2016 and two free zone branches.

In addition, seven branches and two representative offices pursue their operations in six countries in total, under the coordination of the Cross-Border Banking Unit.

**Cooperation with professional associations, industrial organizations and public institutions**

İşbank carried on with its commercial activities focusing on regional needs in 2016. Along this line, the Bank made agreements and established cooperation with various chambers of industry and commerce.

Various activities carried out with other institutions in 2016 are presented below:

- Under the protocol signed between İşbank and the Central Bank of the Republic of Turkey (CBRT), the fund secured from the CBRT is being extended to firms as discounted FC loans for fulfilling the financing needs of exporters and businesses engaged in FC-earning services and activities through the "Exports and FC-Generating Services Rediscount Credits" program.

<sup>(\*)</sup> Calculated using monthly sector data published by the Banking Regulation and Supervision Agency. Interest accruals and rediscounts are not taken into account. Participation banks are excluded from sector numbers.

<sup>(\*\*)</sup> Includes overdraft accounts.

18.1%

İşbank's share in installment commercial loans segment

İşbank continues to channel foreign funds to its customers to back the SMEs and to extend support in various areas including energy, agriculture and women entrepreneurship.

- Cooperation with the Turkish Grain Board (TMO-Toprak Mahsulleri Ofisi) continued and loans were disbursed to depositors who delivered products to TMO (corn, rice or grains) based on warehouse receipts.
- Under the protocol signed between the Bank and the Agricultural and Rural Development Support Institution (TKDK) in relation to the European Union's "Instrument for Pre-Accession Assistance - Rural Development" (IPARD) program, efforts went on in line with the summons for applications by TKDK.
- İşbank continued to collaborate with the Turkish Pharmacists Union (TEB) as part of the activities targeted at the pharmacists customer segment. The Bank continued to intermediate in the payment of pharmacists' social security (SGK) health support premiums and to disburse loans at favorable terms to members of the TEB Assistance Fund also in 2016.
- In order facilitate Micro SMEs' access to financing, who are challenged in obtaining guarantee and to allow broad-based placement opportunity, the portfolio allocated to İşbank continued to be channeled under the "Micro Loans to Micro SMEs Loans Portfolio Guarantee Protocol" signed with the Credit Guarantee Fund (KGF) in September 2015.
- The Bank continued to enter into protocols with Trade and Professional Chambers in order to let businesses make effective use of financing and cash management solutions and to meet the related segment's needs on a local basis.

- Within the scope of the ongoing cooperation between İşbank and Small and Medium Industry Development Organization (KOSGEB), "KOSGEB Machinery and Equipment Loan Interest Support Protocol" 2016 and "KOSGEB Interest-Free Working Capital Loan Interest Support Protocol" were signed.

### Uninterrupted access to foreign financing funds

In order to contribute to the development of the national economy, the Bank tapped foreign funding facilities for various areas including energy, agriculture and women entrepreneurship and kept channeling them to customers.

- Under the Turkey Agribusiness SME Financing Facility (TurAFF), which is primarily intended to support agribusinesses active in regions having difficulty in accessing financing in Turkey, a USD 25 million-facility obtained from the European Bank for Reconstruction and Development (EBRD) has been fully allocated during 2016.
- On-lending of the II. Package under the Turkey Sustainable Energy Financing Facility (TurSEFF) secured from the EBRD for financing the renewable energy and energy efficiency investments of SMEs was completed during 2016. Within the frame of the Bank's securitization deal in 2016, a new fund worth USD 47.6 million has been received from the European Investment Bank (EIB) for financing the SMEs satisfying the EIB-defined criteria and for businesses with 250 to 3,000 employees. The Bank finalized the

## Activities

## İsbank and its Activities in 2016

allocation of a substantial portion of the funds secured from EIB and EBRD under Turkey Mid-Size Sustainable Energy Financing Facility (MidSEFF) to be used for project financing of renewable energy and energy efficiency initiatives of medium and large enterprises. Within the frame of the Bank's securitization deal of 2016, new funds have been obtained from EIB and EBRD in the respective amounts of USD 111.2 million and USD 55 million and efforts continued for on-lending to finance the customers' investments.

- Believing in the importance of participation of women's enterprises in the economy and of expanding women workforce in order to secure sustainability in economy, İsbank supports women in business through foreign funds secured, as well as its own resources. Taking place among the stakeholders of the "Finance and Advice for Women in Business" program launched as a collaboration of İsbank, EU Delegation to Turkey, Ministry of Labor and Social Security and the Turkish Labor Agency, İsbank continues to channel the USD 55 million-fund it has secured under the agreement executed in 2015 within the frame of the program to women in business at favorable terms. On the other hand, on-lending of the financing obtained in two packages of EUR 25 million and USD 12.5 million in 2013 and 2014 for women entrepreneurs has been completed and the Bank continued to reallocate the credit limits freed up as a result of repayments and prepayments.

- USD 220 million-fund arranged from OPIC (Overseas Private Investment Corporation) for financing small and medium enterprises, including women entrepreneurs and those operating in priority development regions, has been fully allocated during 2016.

### Awards received for overseas financing facilities

Within the scope of 2016 TurSEFF Sustainable Energy Excellence Awards, İsbank was recognized as the "Leading Bank in Solar Energy Plant Investment". Funding a number of projects within the scope of TurSEFF, İsbank disbursed a substantial portion of TurSEFF II package for solar energy initiatives.

At the 2016 TurSEFF Sustainable Energy Excellence Awards, the following projects funded by İsbank were recognized with awards:

- Umurlar Wind Energy Power Plant Project of ELFA Electricity Generation Co. - "Highest Environmental Standards Implementation" and
- Işıkyuvar-Işıkküre Solar Power Plant Project of YBT Energy - "Best Practice in Solar Power Plant Development".

### Differentiated solutions and products tailored to customer needs

İsbank identifies businesses' regional and seasonal needs and demands through analysis and assessments made in the field and at the Head Office and customizes its products and services accordingly.

During 2016, İsbank carried out the following activities within the frame of efforts to optimally satisfy customers' financial needs:

- The Bank launched the "Supplier Finance" implementation which allows collection through discounting the receivables arising from forward selling of goods/services before due date, by taking advantage of the commercial relationship between supplier(s) providing goods and services and powerful buyer(s). The implementation lets the suppliers collect the invoice amount before due date at a discount applied by the Bank for the hardcopy and/or e-invoices issued with a future due date for goods/services sold.
- Development work has been completed for "Unlicensed Electricity Generation Loan", the new loan product that will be disbursed to finance the unlicensed electricity generation power plant investments using solar, wind or other renewable energy with an installed capacity of 1 MW (megawatt) or less that are planned by real or legal person merchant customers who are electricity subscribers.
- The sector's first corporate credit card specifically designed for exporters, "Exporter Card" product was launched.
- Under the "Contracted Product Model" in place in the agricultural industry, various matters including the type, quantity, purchasing price, production manner, delivery date and payment terms of the product to be produced are contractually defined between the

# 34 awards

Number of total awards collected by "İŞ'TE KOBİ" SME website

producer and the buyer within the frame of the legislation. Development work has been completed for the "Contracted Production Loan", the new loan product that will be disbursed for meeting the working capital needs of producers that will arise in relation to their agricultural production subject to the contract.

- Development work has been completed for "Loan Backed by Producer Receipt", which will be made available for the working capital requirements of those producers engaged in the agricultural industry delivering and selling their products to traders/companies against a producer receipt for future collection of the related amounts.
- "Medium-Term Agricultural Loan with Installed Repayments" has been developed for fulfilling the needs of customers engaged in agriculture so that they can maintain their production activities, such as building a poultry house, well digging, installation of an irrigation system, repairing greenhouses and sheds, etc. The new loan product, which can be repaid in equal monthly installments or in flexible installments, can be extended by branches with a maturity up to 36 months, whereas the approval of the relevant credit allocation unit will be required for maturities between 37 to 60 months.
- "Meat Poultry Working Loan" has been developed to meet the working capital needs of customers engaged in the poultry sector.

- Development work has been completed for the "Small Cattle (Sheep for Breeding) Working Capital Loan" for meeting the working capital needs of customers engaged in livestock industry in relation to raising sheep for breeding.

## Advanced methods in agricultural banking

In 2016, the Bank carried on with its sector-oriented agricultural banking activities with a particular focus on establishing and spreading the agricultural units assigned with servicing customers from the agricultural industry.

The Bank continued to employ Credit Bureau of Turkey (KKB) Agricultural Loans Assessment System (TARDES) for the loan applications of its customers engaged in the agricultural industry as they are subject to standardized allocation processes entailing effective risk management components, which will serve to create a healthy and profitable agricultural credit portfolio.

## Acting as a solution partner and advisor to enterprises

İşbank closely monitors the changes and transformations the companies are undergoing in line with the developments in the global economy and uninterruptedly continues with its advisory and information services.

Within this context, Head Office and field teams carried on with customer visits during 2016 and the needs of approximately 132,000 commercial banking customers were identified on-site and resolved quickly.

Besides customer visits, "İş'te Buluşmalar" gatherings were held with the theme "Business and Investment Opportunities with China" in İstanbul, Ankara and İzmir and another "İş'te Buluşmalar" gathering was held in İstanbul in cooperation with Dünya Newspaper about "Sharpening Turkey's Competitive Edge" within the frame of information sharing initiatives during 2016.

## "İŞ'TE KOBİ" SME website

Closely monitored by businesses of various scales but most of all by SMEs, "İŞ'TE KOBİ" SME website ([www.istekobi.com.tr](http://www.istekobi.com.tr)) reached more than 80,000 registered members as at year-end 2016, whereas the number of SMEs promoting their businesses on the SME Market and posting ads about the services and products they offer approached 13,000.

Having collected 34 awards in various national and international organizations to date, İŞ'TE KOBİ website features a wide variety of rich content including thousands of current news, articles, industrial reports, feature video interviews and expert comments for use by members and other users.

## Activities

## İsbank and its Activities in 2016

Being the first bank to execute a protocol with the Ministry of Environment and Urbanization within the frame of the Urban Renewal Project, İsbank disbursed retail loans worth approximately TL 330 million to 4,041 customers during 2016.

**RETAIL BANKING**

**İsbank places its customers in the focal point of its retail banking activities.**

Advancements in technology and gradually increasing use of smart mobile devices, in particular, redefine the needs and expectations also in the banking business. While the way individuals obtain and use information evolves, real-time interaction gains constantly growing importance in customer experience.

Aiming to be the financial solution partners that customers prefer the most in every phase of their lives, İsbank formulates its retail banking activities on the center of its digital transformation strategy, which is defined as enriching its relations with the customers and being their companion also in their non-financial lives.

**İsbank kept growing in loan and deposit products targeted at individuals.**

At the end of 2016, İsbank's retail loans book, which is comprised of credit cards and consumer loans, expanded by 8.1% year-on and reached TL 50.6(\*) billion.

İsbank's efforts for new customer acquisition and increasing the savings held in the Bank by its existing customers yielded successful results in 2016. Along this line, savings deposits that make up the Bank's primary source of funding enlarged by 18.8% in TL accounts and by 12.8% in FC accounts and amounted to TL 117.5 billion in the aggregate.

**9.6% expansion in consumer loans**

As at year-end 2016, İsbank's consumer loans increased by 9.6% and reached TL 39.9(\*) billion.

İsbank kept working on setting proactively available credit lines, which positively affects the consumer loans market share and serves as an element of prestige in the eyes of the customers. The initiative addresses various customer segments, with a special focus on salary customers, public and private sector employees and retirees.

**12.5% expansion in housing loans**

İsbank attained 12.5% growth in its housing loans, which amounted to TL 17.7 billion as at year-end 2016.

After reviewing 555 housing projects in progress by the end of 2016, the Bank decided to take part in 264 of them. The number of contracted ongoing housing projects, for which İsbank extended housing loans, went up to 813.

İsbank has been the first bank to execute a protocol with the Ministry of Environment and Urbanization under the Urban Transformation Project. Within this context, the Bank disbursed retail loans worth TL 330 million to 4,041 customers in 2016.

(\*) Includes overdraft accounts.

# 13 million

At year-end 2016, the number of İşbank's retail banking customers was 13 million.

At the end of 2016, 193 thousands loans worth TL 990 million were granted through Instant Loan application.

Under the EUR 200 million agreement signed between İşbank and the European Investment Bank (EIB) in May 2014 for the financing of Urban Transformation Projects, disbursements to İşbank's eligible clients are continuing. Also ongoing is the financing of loans for energy efficiency in residential units within the frame of the "Turkish Residential Energy Efficiency Financing Facility" (TuREEFF) program under the agreement with the European Bank for Reconstruction and Development (EBRD) for USD 60 million and with the Clean Technology Fund (CTF) for USD 15 million.

## "Instant Loan" application

İşbank offers its customers an end-to-end digital experience with the "Instant Loan" application launched in 2015, whereby the loan is immediately deposited in the customer's account upon its approval.

At the end of 2016, the application had been instrumental in selling 193,000 loans that amounted to TL 990 million. The application got 5% share out of the new retail loan allocations in terms of amount and 16% in terms of quantity.

## "Instant Overdraft Account"

Adding a new link to the chain of privileges offered in the digital world, İşbank introduced the "Instant Overdraft Account" on the Personal Internet Branch in 2016, which offers customers the means to fulfill their urgent cash needs in the absence of sufficient funds in their TL demand deposits. Application for the product can be made 24/7, which is instantly assessed by the system

and made available to the customer immediately upon approval.

At the end of 2016, personal overdraft account balance of İşbank increased by 9.4% year-on to TL 604.2 million.

## "Instant Transaction- Housing Loan"

During 2016, İşbank migrated housing loan applications to the digital environment. Customer and even non-customer users visiting [www.isbank.com.tr](http://www.isbank.com.tr) are now able to apply for a housing loan via the Internet or the mobile devices, get pre- approval, initiate a survey and follow-up the process online, without entering a customer number and PIN.

## Customer Management and Communication Activities

Within the frame of its sustainable and profitable growth strategy based on being the bank closest to customers, İşbank has adopted the primary objective of maintaining a lifetime relationship with customers that will last from childhood till retirement. To this end, the Bank develops banking packages covering the products that are needed through every phase of life. In addition, various activation efforts are carried out to deepen relationships with new customers.

Having 13 million retail banking customers at the end of 2016, İşbank continued to develop and introduce its "Yüz Yüze Bankacılık" (Face-to-Face Banking) program launched in 2015, under which Customer Relationship Managers provide privileged services to customers.

## Activities

## İşbank and its Activities in 2016

Maintaining its tradition, İşbank was crowned with 24 awards for its 11 new or upgraded products and services in 12 categories in the retail banking segment in 2016.

As part of the digital transformation process that makes up the foundation of İşbank's marketing, sales and communication activities, initiatives aimed at enriching relations with customers continued. In line with this process, communication activities were conducted with a focus on digital points of contact, whereby product and service offers were integrated with İşCep experience and offered from under a single roof.

Maintaining a presence with 25 social media accounts on 10 different social media platforms with its brands İşCep, Maximum, Maximiles, İş'te Üniversiteli and Yüz Yüze Bankacılık (Face-to-Face Banking), İşbank actively carried out its activities with over one million followers. The Bank's social network accounts provided information on products and services, contents about the digital world trends, how to videos about İşCep and brand-specific thematic concepts, as well as contests with presents for the social media users.

Maintaining its tradition, İşbank was crowned with 24 awards for its 11 new or upgraded products and services in 12 categories in the retail banking segment in 2016.

### İşCep

İşCep continued to rise also through 2016. The number of İşCep customers which was 2.4 million at the end of 2015, exceeded 3.6 million in 2016, translating into a market share of 15.6%<sup>(\*)</sup>.

The free Internet service offered under İşCep in keeping with the strategy of being the bank closest to its customers, "İşCep WiFi" provided free internet access to customers at 250 branches and over 5,000 Turk Telekom WiFi Points.

In 2016, "Device Control" was introduced, which allows customers to define their smart phones on İşCep for a secure and easier user experience. Using this feature, customers can choose to do pairing with a single phone and thus prevent sign-ins from other devices, or they can do pairing with up to three devices. In addition, customers are greeted with a name-based welcome screen as they log in, to which they can also attach a profile photo.

The integrated "Mobil Borsa" feature within İşCep gives access to real-time stock exchange data free of charge and allows viewing depth and volume information in one place and without the necessity of a dedicated application, a first in Turkey. Thanks to "Mobil Borsa", which provides buy/sell transactions and real-time price monitoring in combination, our customers can reach all the data they need and easily perform their stock exchange transactions.

### The Bank offering the highest number of e-commerce payment methods

In 2016, İşbank kept expanding its service range in card-based payment systems and especially in the coverage of member merchant agreements and has been

<sup>(\*)</sup> Calculated according to the Banks Association of Turkey (TBB) 4th quarter data, using the number of active individual customers within the three-month period registered in the system.

# 3.6 million

The number of İşCep customers topped 3.6 million by the end of 2016.

A leading player in the payment systems market, İşbank reached 7 million credit cards and 10 million debit cards as at December 2016.

the bank to offer the highest number of e-commerce payment methods with the integration of a single virtual POS.

Currently performed on İşbank's POS devices, Dynamic Currency Conversion (DCC), which allows cardholders coming from foreign countries to transact in their home country's currency, is now also supported by Bankamatik ATMs.

### Increased share in the payment systems market

A leading player in the payment systems market, İşbank reached the following numbers as at December 2016:

- 7 million credit cards, 10 million debit cards issued,
- TL 76.5 billion in credit card retail volume and 14.3% market share,
- TL 93.6 billion acquiring volume and 15.9% market share.

During 2016, the Bank achieved increased market share in various indicators including the number of credit cards issued, retail volume and member merchant transaction volume.

### Enriched service range

İşbank offers tailored solutions for its customers with specific expectations in the card-based payment systems with its Maximum Card, Maximiles Card entailing travel miles program, MercedesCard entailing travel miles program for customers owning Mercedes-Benz passenger cars, Maximum TEMA Card for

environmentally sensitive customers and MaxiPara Card, the prepaid card product.

Innovating its company credit card portfolio, İşbank developed the Exporter Card and Exporter Card Premium products aimed at export firms, following Maximum Company Credit Card and Vadematik Card. These new commercial credit card products earn MaxiPoints for exporter customers both on their purchases made using their credit cards and also on the export volume realized via İşbank.

Following the announcement of "TROY", Turkey's first national payment system, to the public by the Interbank Card Center (BKM), cards bearing the TROY logo began to be welcomed at İşbank member merchants and Bankamatik ATMs.

The Bank's enriched product and service range increased in the member merchant area in 2016 and new implementations of national importance were introduced. First and foremost, cards pertaining to UnionPay International, the world's largest card establishment on physical POS devices, were put into service and member merchant agreements were made for virtual POS acceptance.

On the other hand, upon its incorporation in the Turkish Airlines system, UnionPay cardholders were given the opportunity to get their visas and purchase their plane tickets while in their home country, to make hotel bookings, to withdraw cash from more than 6,500 Bankamatik ATMs in Turkey and to shop from nearly 500,000 sales points.

## Activities

## İşbank and its Activities in 2016

İşbank has long been making a difference in e-commerce with its value-added products and applications.

### The first bank to offer alternative payment methods

The provider of virtual POS service to member merchants for many years, enabling shopping with credit and debit cards bearing Visa, MasterCard, American Express and UnionPay logos that represent the key payment instruments in e-commerce and the pioneering bank to offer alternative payment methods to its customers in Turkey, İşbank signed its name under yet another important development that will support overseas sales of member merchants. The virtual POS service that will allow transacting through 13 different local payment systems based abroad has afforded the opportunity to support the overseas sales of member merchants within the frame of e-commerce in 43 different countries.

İşbank has risen to leadership with 22.9% market share in this field, with its value-added products and applications including "FC POS", "DCC" and "Collect on Delivery" that have been long making a difference in e-commerce. The leader by a large margin in accepting foreign cards with a market share of 34.5%, İşbank has secured a remarkable share of 76.3% in the overseas e-commerce market.

### Cooperation with new initiatives

In 2016, İşbank launched "PiRi", the audio walking tour application", as part of the Maximum Card initiative aimed at enhancing the relationship maintained with credit card customers and to offer them privileges. With the application, card customers can download various tours including the Historic Peninsula, Karaköy,

Galata and Edirne free-of-charge and discover these locations with the accounts of professional guides.

### Efforts to propagate awareness of saving up

İşbank steers its customers to save up regularly in small amounts through a number of different products from Private Pension to Accumulated Savings Account, from the Money Box Fund to "Üstü Kalsın" round-up order, in addition to its conventional saving and investment products.

Introduced during 2016, Maksimum Term Deposit Account offers customers personal cash management services on one hand, while enabling to invest the idle funds in the non-term TL account into overnight term deposits. The total balance in the, Maksimum Term Deposit Account which is available for the savings of retail banking customers, quickly reached TL 221 million as at year-end 2016.

At the end of 2016, total mutual funds generated under the "Üstü Kalsın" round-up order amounted to TL 60.5 million.

Furthermore, Gold Days at Branches held since 2012 were carried on also during 2016 and served to recover 1.5 tons of gold saved up by the customers back into economy.

### Saving up for the children's future: Money Box Fund

İşbank Money Box, offered to raise awareness of saving up among children, was transformed into a savings plan securing the future of the children under

# 225 thousand

Number of private pension accounts opened via İşbank branches during 2016.

the name "Money Box Fund". Having proven itself as a significant contributor to long-term investment awareness, the Money Box Fund had reached over 231,000 investors as at year-end 2016.

## The preferred bank in salary payments

During 2016, İşbank intermediated the salary payments of approximately 1.9 million employees and retirees. Special products and services offered to individuals who receive their salaries exclusively via İşbank make up a topic that the Bank puts special emphasis on with respect to customer loyalty.

## Solid position in retail cash management

As at year-end 2016, İşbank facilitated bill payments of 431 institutions through İşCep application, its Internet Branch, Bankamatik ATMs, branches and automated payment order.

With its Unlimited Automatic Service (SOS) and Maximum Account features, İşbank affords its customers the chance to automatically buy mutual funds using amounts above a specified threshold kept available in their accounts for daily transactions and to pay their bills, for which they have issued an automated payment order, on the due date using the funds available in the account and mutual funds. At the end of 2016, the number of customers who had issued SOS instructions was above 1.5 million,

whereas that of customers with a Maximum Account instruction was nearly 780,000.

## The leading bank in OGS and HGS

As at end-2016, İşbank preserved its leadership in the transaction volume of OGS (Automatic Pass-Through) devices and HGS (Rapid Pass-Through) labels that facilitate bridge and highway crossings.

The number of HGS labels and OGS devices provided by İşbank passed over 1 million and 700 thousand, respectively. During 2016, highway and bridge crossings made using İşbank OGS devices amounted to TL 252.5 million and with HGS labels to TL 256.5 million. The coverage of OGS and HGS was expanded with the systems set up at Osman Gazi and Yavuz Sultan Selim bridges and at Eurasia Tunnel in 2016.

## Western Union money transfers

Western Union money sending and receiving services through the Internet branch, branches and Bankamatik ATMs were improved so as to allow sending money to customers' accounts in specified countries in 2016.

## Money transfer from PTT to İşbank

The infrastructure set up between PTT (Post and Telegraph Organization) and İşbank enables making money transfers from any PTT branches to accounts held with İşbank.

## Cooperation with Anadolu Sigorta and Anadolu Hayat Emeklilik

Within the frame of the ongoing solid collaboration with Anadolu Sigorta and Anadolu Hayat Emeklilik, İşbank keeps delivering a broad range of products in;

- non-life insurance,
- life insurance and
- private pension

on the back of an efficient service understanding.

## Private Pension Account

The number of private pension accounts opened via İşbank branches that serve as agencies of Anadolu Hayat Emeklilik exceeded 225,000 in 2016.

A subsidiary of the Bank, Anadolu Hayat Emeklilik commanded 17% market share with 1,120,399 participants as at year-end 2016.

## Non-life Insurance Products

During 2016, work continued to offer insurance products to customers that are aligned with the loans they have taken out and to strengthen sales channels within the scope of the collaboration between İşbank and Anadolu Sigorta.

## Activities

## İşbank and its Activities in 2016

In keeping with its goal of being the top choice of customers in 2016, İşbank Private Banking managed clients' total assets worth TL 20 billion in cooperation with its subsidiaries, based on superior service notion.

## PRIVATE BANKING

**During 2016, İşbank Private Banking carried out its activities with its expert personnel and based on its business model that puts customer expectations in its focus.**

As of year-end 2016, total assets worth TL 20 billion pertaining to 10,000 customers were managed in a total of 26 branches including 14 dedicated private banking branches positioned as investment centers in İstanbul, Ankara, İzmir, Adana and Antalya, with customized solutions that caters to customers' financial and non-financial expectations with a holistic approach.

### Integrated service delivery with İşbank subsidiaries

At dedicated private banking branches that serve as authorized agents of İş Portföy Yönetimi A.Ş., wealth management service delivery continued based on a long-term investment perspective adopting a professional viewpoint, taking into consideration the customers' expectations of risk and return. In addition, the needs of customers requiring financially optimum transfer of wealth to future generations were satisfied through investment funds with custom-designed structures.

The expertise and experience of İş Yatırım Menkul Değerler A.Ş. were put to use to fulfill the needs of customers who needed guidance with respect to investments into stocks or who sought access to various securities offered in overseas markets.

İşbank and Anadolu Hayat Emeklilik A.Ş. jointly introduced the service model that will allow use of personalized

approaches for the management of clients' accumulated funds with respect to management of private pension products, which are positioned as an alternative investment instrument owing also to the government incentives.

### Privia branded products and services

During 2016, İşbank continued to create value through distinctive and privileged products offered to private banking customers under its "Privia" brand.

### İşbank Private Banking Events

As part of the strategy to extend the exclusive approach displayed in financial services delivery into other areas as well, private banking clients had the opportunity to attend select arts, music, sports and cinema events in line with their tastes and preferences during 2016.

### In 2017...

In 2017, İşbank Private Banking's efforts to expand its competent service network will continue. Also ongoing will be the business notion based in enhancing customer satisfaction and loyalty through delivery of premium and personalized service at dedicated private banking branches.

In addition, emphasis will be placed on broadening the product range in cooperation with İşbank subsidiaries so as to make sure that the clients take optimum advantage of the potential return opportunities that may materialize amid dynamic market conditions in a manner that suits their risk appetites and to upgrade service channels in line with İşbank's digital transformation strategy.

# TL 2.9 trillion

İşbank is the leader among private banks with a trading volume of TL 2.9 trillion in Borsa İstanbul Debt Instruments Market.

## CAPITAL MARKETS

### A decisive lead in Borsa İstanbul Debt Securities Market

İşbank was the leader among private banks with a trading volume of TL 2.9 trillion in Borsa İstanbul Debt Securities Market as at year-end 2016. With 12.7% market share, the Bank has consolidated its pioneering and leading position that it has been preserving for many years in the Turkish capital markets.

### İşbank leads in private sector bond issues

Having increased as a result of the pursuit for fund diversification in the banking sector, private sector bond issues continued in 2016.

In 2016, İşbank carried out bond issues of various types and maturities with the objectives of:

- securing long-term funds,
- diversifying the existing funding structure,
- decreasing the maturity mismatch between assets and liabilities and
- offsetting short-term interest rate risk.

With total domestic bills/bonds issues amounting to TL 10.9 billion in 2016, İşbank has maintained its leading position in the sector with a market share of over 20% both in terms of both total and outstanding issues. At the Capital Markets Congress organized by the Turkish Capital Markets Association (TCMA), İşbank was named the "Top Domestic Bond Issuer in the Financial Services Sector".

### Leader in gold transactions

İşbank customers' holdings in gold deposit and investment accounts totaled 23.1 tons at the end of 2016. Remaining the leader in gold deposit accounts throughout the year, the Bank enjoyed a market share of 16.2% as at year-end 2016.

Through "Gold Days at Branches" service, the Bank continued to be instrumental in recovering the so-called "under-the-mattress" physical gold for the registered economy during 2016.

### Synergy with İş Yatırım

In 2016, İşbank, together with its subsidiary İş Yatırım Menkul Değerler A.Ş., have generated 7.9% of the trading volume on Borsa İstanbul Equity Market. Thanks to this collaboration, the Bank pursued its activities as one of the leading institutions in the market.

### Active role in the mutual funds market

İşbank sustained its role as the leading fund distributor by intermediating 20.3% of the mutual funds sales in the sector, as at year end 2016.

The number of investors in the Money Box Fund, the first mutual fund designed for children, leads the mutual funds of a similar nature available in the sector by a large margin.

In 2017, İşbank will keep improving

- its new products and services designed within the frame of customer preferences and market conditions,
- its competitive pricing policy,
- its wide range of service channels ensuring uninterrupted and high-quality service delivery and
- its market shares in money and capital market products and gold transactions.

### Leader in custody

The most preferred custodian with 31% market share and TL 19 billion assets under custody for services provided to discretionary and collective portfolios managed by asset management companies; İşbank was awarded in the "Custody Activity / Highest Custody Balance 2015 / Domestic Investor" category at the TCMA Capital Markets Awards organized by the TCMA held on 5 April 2016.

## İsbank and its Activities in 2016

The robust structure of the Turkish banking industry allowed banks to renew their borrowed funds and access to new sources from international markets even at tough times.

### TREASURY MANAGEMENT

#### Unforeseen developments and significant decrease in capital flows to emerging countries

Throughout 2016, unforeseen fluctuations resulted from developments that had global repercussions, which included the monetary policies of central banks, concerns over growth centered around China, the UK referendum regarding exiting the EU membership (Brexit) and the US and Eurozone elections. The expectations for the Fed's rate hike, statements by the Fed members, the positive signals of the recently released US growth and unemployment data and the possibility of faster rate hikes in the period ahead following the December hike have been the drivers behind the appreciation of the US Dollar against other currencies and the fast rise of US treasury bond yields.

While the Fed's decisions have been the main decisive factors with respect to capital and portfolio flows to emerging markets including Turkey, growth data for the Chinese economy, the fluctuations in the commodity markets and geopolitical risks originating from the Middle East were among the key elements that aggravated the concerns hovering over global economies.

As the direction of global markets has been the main determinant in terms of domestic markets, there have been other notable events that, from time to time, led Turkey to be negatively diverged from other emerging countries.

#### Simplification in the monetary policy of the Central Bank of the Republic of Turkey (CBRT), countermeasures against fluctuations in markets

The CBRT carried on with its simplification steps throughout the year, adopted timely measures that gave banks access to liquidity and supported the sector with steps that decreased funding costs during a year which has been a scene to a number of extraordinary incidents.

From March 2016, the monetary policy has been significantly simplified, in view of its contribution to the effectiveness of the monetary transmission mechanism as well. Accordingly, the upper band of the corridor was gradually decreased by a total of 250 basis points in the period from March 2016 through September 2016. In an effort to curb the negative effect of exchange rate movements stemming from increased global uncertainties and high volatilities upon inflation forecasts and pricing behaviors, monetary tightening was carried out by increasing the policy rate and the lending rate in November. Moreover, reserve requirements were revised downwards, while introducing arrangements that will increase the functionality of the reserve option mechanism.

#### Balance sheet composition of the banking industry

During 2016 economic activity was under downward pressure due to global developments, geopolitical risks and domestic political developments, the

## İşbank's balance sheet is managed with a proactive strategy aligned with the market developments.

industry's balance sheet growth in terms of TL slimmed down by 2.2 percentage points as compared with 2015 and stood at 16,1%<sup>(\*)</sup>. Total assets of the banking sector reached TL 2,598<sup>(\*)</sup> billion with 8.0% growth when adjusted for exchange rate effect.

The growth in loans went down by 2.7 percentage points year-on in TL terms and stood at 17.4%<sup>(\*\*)</sup>. The total loans when adjusted for exchange rate effect increased by 10.1% in 2016 amounted to TL 1,658<sup>(\*\*)</sup> billion as of the year end. The share of loans in total assets moved parallel to the trend in 2015 and realized at 63.8%<sup>(\*)</sup>. Credit demand was low in 2016 due to occasionally increased risks specific to Turkey, in addition to fluctuations in global markets. During the same period, total securities portfolio of the industry grew by 5.9%<sup>(\*\*)</sup> as compared with year-end 2015.

The banking sector's total deposits (excluding banking deposits) which had increased 18.6%<sup>(\*\*)</sup> in 2015, grew by 17.2%<sup>(\*\*)</sup> in 2016. The actual growth was 8.7% when adjusted for exchange rate effect. Customers' preferences to convert to TL from FC accounts supported the development of the deposits composition in favor of TL and while TL deposits expanded 18.1%<sup>(\*\*)</sup> in 2016, FC deposits shrank by 4.1%<sup>(\*\*)</sup> in terms of USD. During the reporting period, the share of deposits to total liabilities followed a parallel course to that in 2015 and was registered as 52.8%<sup>(\*\*)</sup>.

The robust structure of the Turkish banking industry allowed banks to renew

their borrowed funds and to access to new sources from international markets even at tough times. Totalling USD 54.9 billion at year-end 2015, the amount of the industry's syndicated and securitization loans and Eurobond issuances rose to USD 57.4 billion at 2016 year-end.

### Balance sheet composition at İşbank has been shaped with a proactive approach.

During 2016, İşbank's balance sheet was managed with a proactive strategy aligned with the market developments. Within this context, a flexible balance sheet composition was formed taking all factors into consideration with a particular focus on effective management of FC and liquidity positions along with loan and investment portfolios, optimum risk-return balance and fulfillment of customer needs.

While İşbank's balance sheet performed in parallel to the industry in 2016, the share of securities portfolio to total liabilities rose from 16.2% to 16.5%, whereas the share of loans was 65.2% (2015: 64.2%). İşbank maintained its leader position in deposits with 56.9% share within total liabilities, securities issued and funds borrowed maintained their levels close to those in 2015 with respective shares of 7.2% and 9.9%.

In 2016, İşbank kept obtaining relatively low-cost and long-term funds from international financial markets through various borrowing instruments, thanks to the high credibility the Bank has. The share of the international funds obtained

through syndicated loans, foreign trade related financing, securitizations, bilateral loans executed with banks and international financial institutions and Eurobond issuances in the balance sheet went up to 16.7% as at 2016.

### Effective risk management and robust balance sheet structure

Under Treasury operations, liquidity, interest rate and exchange rate risk elements were managed in line with the Asset / Liability Management Risk Policy principles and with strict adherence to sustainable profitability principle, in parallel to the Bank's risk appetite.

Throughout 2016 risks were aggravated, İşbank focused on its asset quality, cost control and effective capital utilization and achieved an optimum risk-return balance, thereby reaching its goal of sustainable and profitable growth target without any problems. Thanks to the policy that prioritizes growth in deposits, which takes place among the key components of the Bank's financial management strategy, the loan to deposit ratio was maintained at a sustainable level.

Potential risks that may arise from the maturity and interest rate structure and FC position, was monitored ad-hoc and on scenario basis, employing efficient models, along with using money and capital markets products and derivative transactions in accordance with the market conditions.

<sup>(\*)</sup> Calculated using monthly sector data published by the Banking Regulation and Supervision Agency. Participation banks are excluded.

<sup>(\*\*)</sup> Interest accruals and rediscounts are not taken into account.

## Activities

## İşbank and its Activities in 2016

During 2016, İşbank kept securing new funds from ECAs and from correspondents under ECA cover and continued to allocate existing loans.

**INTERNATIONAL BANKING**

**The extensive correspondent network contributes to İşbank's position as a leading bank in foreign trade.**

Through a correspondent network of more than 1,450 banks in 126 countries, İşbank, in 2016;

- offered a rich selection of foreign trade products and services to its customers and
- intermediated foreign trade transactions performed between Turkey and more than 230 different countries.

In order to satisfy its customers' financing needs for their imports of investment goods and for their energy projects, İşbank continued to execute agreements for obtaining medium and long-term financing either directly from Export Insurance and Credit Agencies (ECAs) or from correspondent banks under ECA coverage. In addition to that, the Relending Facility Agreement signed with Taiwan's Eximbank in 2014 in order to provide financing to the imports from Taiwan was extended for two more years.

In 2016, the Bank kept securing new funds from ECAs or from correspondent banks under ECA coverage and continued to allocate the available lines of credit in favor of İşbank clients.

**İşbank's international service quality is being endorsed by awards.**

In our day when the advancements in the information age play an active part in human life, it is among the primary goals of all financial services institutions to minimize employee intervention in interbank transactions. This is of particular importance in payments entailing a very high number of transactions.

In 2016, İşbank continued to be awarded by its correspondents for its high straight through processing (STP) rates enabled by its investments in technology in this area. The Bank received STP quality awards from Commerzbank, Citibank, JPMorgan Chase Bank and Wells Fargo Bank.

**İşbank builds on its international recognition through SIBOS meetings.**

Organized in a different country every year by the Society for Worldwide Interbank Financial Telecommunication (SWIFT), SIBOS (SWIFT International Banking Operations Seminar) took place between 26-29 September 2016 in Geneva. Making its ninth appearance at SIBOS, İşbank took the opportunity to make a corporate introduction of the Bank through the meetings and events held during SIBOS, provided information about its products and services and also made mutual contacts for improving and increasing the cooperation opportunities with correspondent banks.

# USD 2 billion

Total nominal amount of the Eurobond issues done in 2016.

İşbank continued to intermediate its customers' foreign trade transactions on the back of privileged services and products offered within the frame of international banking.

## İşbank had a successful year in terms of foreign funding.

Enjoying a successful track record and a solid experience in securing international syndicated loans, İşbank successfully renewed its matured syndicated loans and obtained a total financing of USD 2.4 billion from international markets in defiance of the tough market conditions.

56 different international banks, led by those from the US, the UK, Germany, France, the Gulf Region and Japan, participated in the deals realized in May and September. The high number of participating banks and the high renewal rate once again attested to the trust held in İşbank. The funds obtained were used to support the financing of the foreign trade transactions of the firms engaged in the real economy and thus, contribution to the development of the national economy was sustained.

## İşbank keeps utilizing the Global Medium Term Note (GMTN) Program effectively.

İşbank continued to effectively utilize the GMTN Program it has set up in 2013 to enable debt instrument issues in different currencies and with varying maturities in international markets and to achieve flexibility and diversity in borrowing instruments

With a program limit of USD 7 billion, the program served for the issuance of 39 Eurobonds during 2016, 37 of which with a total amount of USD 647 million were private placement type of issues. Two issues with a total nominal value of USD

1,350 million, on the other hand, were benchmark size Eurobond transactions.

## İşbank maintains its pioneering and leading position in Eurobond issues.

In 2016, İşbank issued 5.5-year maturity Eurobonds in the amount of USD 750 million in April and USD 600 million in October, for a total nominal value of USD 1,350 million. Both issues drew interest from insurance companies, banks, asset management and pension companies.

The issuance in April represented the highest-ticket bond issue by a Turkish bank after 2014. The issuance in October, on the other hand, was the first one done by a Turkish bank in the aftermath of July 15th and loss of the investment grade rating. İşbank is the market leader in Eurobond issuances.

## Eurobonds, which lost their subordinated loan feature, were brought into alignment with Basel III regulations.

Subordinated Eurobonds with a nominal value of USD 400 million issued on 10 December 2013 started to be excluded from shareholders' equity computations from 31 March 2016 under the new regulations introduced by the Banking Regulation and Supervision Agency (BRSA). After obtaining the approval of the investors, the terms of these bonds were modified effective 6 June 2016, so as to let them be taken into account again as Tier 2 capital under the applicable legislation pursuant to Basel III requirements.

## Activities

## İşbank and its Activities in 2016

**İşbank obtained funds amounting to nearly USD 400 million under the Diversified Payment Rights (DPR) Securitization Program.**

İşbank obtained funds amounting to approximately USD 400 million in total, through two deals on 21 October and 1 December 2016.

Besides commercial banks, the European Bank for Reconstruction and Development (EBRD) was also an investor in the transaction completed on 21 October 2016. The portion of USD 55 million of the 5- and 12-year facility provided in various tranches was obtained from the EBRD and is to be utilized for the financing of the sustainable energy investments of private sector firms within the frame of the Turkish Mid-Size Sustainable Energy Finance Facility (MidSEFF) Program.

The investor of the securitization transaction closed on 1 December 2016 is the European Investment Bank (EIB). The fund worth approximately USD 159 million with final maturities of 10 and 13 years is to be used for financing the private sector companies' investments in sustainable energy under MidSEFF and the SMEs satisfying the EIB-defined criteria and businesses with 250 to 3,000 employees.

**Cross-Border Banking Operations**

İşbank operates abroad through a total of 47 branches including its overseas branches, subsidiaries branches and 2 representative offices in 14 countries. By the end of 2016, total assets of İşbank's overseas organization were worth USD 7.8 billion.

Cross-border banking operations and growth strategy of İşbank are underpinned by the following motives;

- becoming first a regional and then a global bank in the international arena,
- establishing a presence in the markets having significant economic and commercial relations with Turkey, with a special emphasis on the countries in Turkey's hinterland and
- Providing customers with high quality services in regions where Turkish companies actively operate, thus creating high added value.

Within this scope, the Bank continued to monitor especially the Middle East, Caucasus and the Balkans during 2016.

İşbank keeps making a difference in Iraq with its international banking services offered particularly via its Erbil branch. Besides intermediating a substantial portion of the trade between the two countries, the Bank also contributes to the transformation and development of the region through the loans made available particularly to corporate clients.

In Kosovo where there are 9 rival banks, İşbank increased its market share due to its high-quality and customer-oriented service offered to Turkish investors and local corporate clients and achieved to increase its total assets by 19% year-on in 2016.

Having obtained a banking license in Georgia in 2015, İşbank Georgia, a subsidiary of İşbank, kept expanding via its Tbilisi and Batumi branches in 2016 and increased its total assets by 16% compared to the last year.

Due to the issues between Turkey and Russia, İşbank Russia devoted 2016 to restructuring and transformation efforts, which resulted in a healthier and stronger structure. With the improvements in relations, İşbank Russia's profit-generating activities are anticipated to gain momentum in the upcoming days.

The positive relationships developed with the Gulf countries via Bahrain Branch contribute to İşbank's financial figures at a growing extent. The Bahrain Branch obtained funds worth more than USD 200 million from 13 different region banks during 2016.

In the UK where the Bank has had a presence for many years, the London and Edmonton Branches kept offering post-financing, secondary market and treasury transactions and spent efforts for POS sales, as well as providing deposits and lending services. POS transaction volume of the branches reached GBP 54 million.

In the 2011-2016 period, İşbank's mobile banking customer base grew 18 times and exceeded 3.6 million people.

## DIGITAL BANKING

### Digital Transformation

Reduced costs as a result of increased speed of technological innovation, exponential growth of data consumed and stored in the digital environment and easier access to information with the increased use of smart mobile devices have triggered the digital transformation all over the world and in our country.

A roadmap for digital transformation has been developed and organizational changes have been applied in order to increase efficiency and productivity, via new income opportunities and business models offered by digital technologies and to offer the best possible experience to the customers by digitalizing all relevant processes.

İşbank carries out its digitalization initiatives in line with its goal of delivering personalized solutions that make its customers' lives easier at any time they need by building on their advanced data analytics capabilities and of optimizing the experience at all points of contact and particularly in mobile banking.

### İşbank maintained its leadership in digital channels.

In the period from 2011 through 2016, İşbank's mobile banking customer base grew 18 times and exceeded 3.6 million customers.

The number of customers who used İşbank ATMs (Bankamatik) in 2016 reached 8.1 million, where users of the Internet Branch reached 2.8 million customers.

The share of Bank's digital touchpoints in all comparable transactions has reached 85%.

With 6,527 ATMs, İşbank retained its title as the private bank possessing Turkey's broadest ATM network in 2016 and led its closest private bank follower by a margin of nearly 1,700 ATM machines.

Introduced in 2015, in-line with İşbank's ATM networking strategy to keep abreast of the changes in customer preferences and behaviors, İşCepMatik, the new generation ATM device combining the Bankamatik and İşCep brands, was enriched in functionality with the addition of cash depositing capability.

Taking a holistic approach to customers' interaction with İşbank at all points of contact, İşbank aims to offer a complementary, integrated customer experience that provides consistent physical and digital experiences and that responds to customer needs and expectations properly when the need arises in real-time, in a personalized, easily accessible and low-cost fashion. In this context, design-oriented solution and user experience testing methodologies were applied to restructure and digitize the housing loan process, complaints management and İşCep customer experience.

İşCep, the mobile banking application, began offering service with its user-friendly new design for Android users. On the other hand, the Georgia mobile application went live within the frame of International Instant Banking initiatives.

"Sosyal Hesap" (Social Account), a first in Turkey, was launched as a new service whereby İşCep users can ask for a money transfer for meals, presents, entertainment, school fees and similar purposes into a designated account from their families and friends, or whereby they can quickly respond to such requests. Through the Social Account, İşCep users can ask the participants to chip in, select a target amount and target date for their organizations and instantly monitor the incoming amounts and their details. The Social Account allows the transferor to remit the money via the defined account, without entering the account number.

"Instant Transaction" was launched which is designed as a platform to let users follow up on the applications they have made via the website at [www.isbank.com.tr](http://www.isbank.com.tr) and communicate their needs without visiting the branches. The housing loan process has been digitized end-to-end, leaving only the signature phase for completion at a branch. In addition, card data can now be conveyed through SMS or email without logging in to a channel. Users who will make a trip abroad can communicate their requests for the account status letter, international trip fee and travel insurance via "Instant Transaction".

### Data Analytics and CRM Activities

During 2016, İşbank kept increasing the number, diversity and depth of its analytical models for the purposes of better knowing its broad customer base, managing the relationship established with the customers through optimum resource allocation and improving customer experience.

## Activities

## İşbank and its Activities in 2016

İşCep mobile app and Campaign Management System have been integrated in order to make customized campaign offers based on analytical models. Moreover, the infrastructure improvement has been completed which allows push notifications via İşCep using the Real Time Campaign Management Tool.

The "Fırsatla" application incorporated in İşCep during 2016 allows customers to pair their Facebook and Twitter accounts with their customer numbers. Thus, the Bank is able to follow its customers on social networks and make personalized offers. As at year-end 2016, the number of unique customers matching their İşbank accounts with their social network accounts using the "Fırsatla" application on social media reached 100,000.

Search Engine Optimization (SEO) has been initiated to increase the visibility of the Bank's websites in Google searches and to carry the search results to higher ranks.

İşbank has carried on with its efforts to position every one of its digital assets and particularly its corporate website (www.isbank.com.tr) as an efficient sales channel, carefully taking best customer experience practices into consideration.

### Innovation at İşbank

An Innovation Committee has been set up to propagate the innovation culture and to maintain innovation processes in an uninterrupted manner across İşbank. With a view of achieving increased recognition of İşbank in Turkey's entrepreneurial ecosystem and to building close

relationships, an office was opened in Kolektif House that provides co-working spaces based on shared office concept to entrepreneurs and investors. In addition, an Innovative Ideas Competition was organized to gather product and service ideas that will boost sales by making a difference in the eyes of customers.

### INNOVATIVE APPLICATIONS AND PRODUCT DEVELOPMENT

#### Continuous innovation and R&D projects with the goal of making customers' lives easier

Moving ahead with the vision of pioneering the market by enriching its product range, İşbank kept introducing new products and services to customers in 2016:

- "Instant Transaction" menu on İşbank's corporate website at www.isbank.com.tr enables getting information and filing applications quickly for various products and services including credit card limit/debt balance, international travel insurance, financial standing letter for visa applications, etc. without logging into the personal internet branch.
- Further enriched based on the collaboration with zingat.com and offering an end-to-end housing loan utilization experience, "Instant Housing Loan" application lets the customers calculate the life score by entering home-work-social area and location information via www.isbank.com.tr, reach house ads and file a housing loan application.
- Allowing transactions through 13 different local payment systems based abroad, the Virtual POS service affords the chance to support the overseas sales of member merchants within the scope of e-commerce in 43 countries.
- Online visa and online accommodation infrastructure made available to UnionPay cardholders has been broadened to incorporate Turkish Airlines sales channels, thereby introducing a new opportunity for increasing Turkey's tourism revenues.
- As part of the digitization strategy, PİRİ, the audio walking guide mobile application, has been launched under the Maximum Card brand for use by customers.
- Maksimum Term Deposit Account was introduced, which offers customers personal cash management services on one hand and generating interest income on overnight term deposit accounts as an alternative to mutual funds for investing the idle funds in the non-term TL account.
- Developed with the goal of growing the number of company credit cards enlarging the shopping volume, increasing the number of export intermediary companies and extending the volume of exports; the "Exporter Card", a first in the sector designed specifically for exporters, has been introduced.

# 43 countries

International sales support in 43 countries as part of the Virtual POS service.

Continuing with its R&D activities at full speed, İşbank has aimed to make its customers' lives easier through its banking transactions.

## Constant process improvement at İşbank

During 2016, İşbank's credit card infrastructure has been revamped. The new infrastructure enables quicker introduction of new features of credit cards, increasing product diversity and enhancing transactions at branches.

In 2017, work will be ongoing to upgrade the Bank's technical architectural platforms, to increase the efficiency of data management and to update data quality and legal reporting processes and basic banking and payment applications.

## Technological infrastructure improvement activities are underway.

İşbank kept investing in its technological infrastructure during 2016. Within this context;

- IT architecture and data center transformations were carried out together;
- a more uniform and integrated technology platform that is better suited to the Bank's future needs is being created. This platform is intended to ensure a lean multi-channel architectural design and to provide an integrated and consistent channel experience through faster introduction of products and services.

## Innovative implementations for loan products

İşbank conducts research and development activities in relation to the topics mentioned below:

- automation of the loan requests of real person tradesmen and execution of the entire process on a single platform from the customer's application to loan allocation, from product selection to pricing and credit disbursement;
- automation of variables taken into consideration by employees working in credit allocation units on the bases of collaterals and loans and slotting the customer demands on the risk matrix in a manner specific to the given transaction, through the decision engine running in the background,
- improvement and automation of the drawee inquiry process.

Work is being carried out to improve decision support systems to ensure creation of processes for the implementations under the project and to provide automated decisions in implementations.

# Subsidiaries

At the end of 2016, İşbank had direct equity stakes in 25 companies.

**İşbank Group has a number of participations operating in Turkey and abroad.**

Over the course of its deeply rooted history of 92 years, İşbank has participated in a total of 294 companies to date. Having ended its partnership in 269 companies, the Bank had direct participations in 25 companies as of year-end 2016. Currently, İşbank has direct or indirect control over 108 companies.

**82% of İşbank's participations portfolio with a total worth of TL 10.6 billion is traded on Borsa İstanbul.**

Constituting 82% of İşbank's participations portfolio, Türkiye Sınai Kalkınma Bankası A.Ş., Anadolu Hayat Emeklilik A.Ş., İş Finansal Kiralama A.Ş., İş Gayrimenkul Yatırım Ortaklığı A.Ş., İş Yatırım Menkul Değerler A.Ş. and Türkiye Şişe ve Cam Fabrikaları A.Ş. are publicly listed companies and their shares are traded on Borsa İstanbul.

The ratio of the participations portfolio in İşbank's total assets stood at 3.4% at year-end 2016.

**An equity stake policy focused on efficiency and profitability**

In line with its investment strategy, İşbank's priority is to make sure that its subsidiaries rank among the pioneering and leading enterprises of their respective sectors and that they create value.

## FINANCE

İşbank has financial services subsidiaries that are active in business lines such as banking, insurance, private pension, capital market brokerage, portfolio management, venture capital, factoring, reinsurance, financial leasing, asset management, securities investment trust, investment banking and real estate investment trust. Financial services subsidiaries enrich the range of products and services offered by İşbank to retail and corporate customers in different business lines while also creating complementary and cross product delivery and sales opportunities.

## TSKB

Türkiye Sınai Kalkınma Bankası A.Ş. (TSKB), Turkey's first privately-owned development and investment bank, is the sector leader in this market segment.

Being one of the pioneers of the Turkish banking sector, TSKB has played a significant role in Turkey's economic development since it was founded in 1950.

With its strong performance in economic, environmental and social aspects, the Bank continues to contribute sustainable value for stakeholders and the national economy.

TSKB offers a wide range of investment banking services including investment loans, project finance, leasing and corporate finance in the first place. Providing significant contribution to the sustainable development of the Turkish economy through long-term funding of investment projects and customer-specific consultancy services, TSKB takes into consideration the environmental impact of the loans it extends. The Bank supports investments in a variety of sectors through renewable energy, energy and

3.4%

The ratio of the subsidiaries portfolio in İşbank's total assets stood at 3.4% at year-end 2016.

resource efficiency, sustainable tourism, environmental and SME loans secured from development finance institutions.

Being one of the leading banks in the field of sustainability, TSKB received the Low Carbon Hero Award from the Sustainable Production and Consumption Association (SÜT-D) for the second year in a row in 2016. TSKB also has been the first Turkish bank to carry out the Green/Sustainable Bond issuance in international markets, which will exclusively finance green and sustainable projects.

In October 2016, TSKB's corporate governance rating was raised to 9.53 on a scale of 10. Having been awarded by the Corporate Governance Association of Turkey (TKYD) at different times for its high corporate governance ratings, TSKB claimed the second prize in "The Highest Rated Company in terms of Corporate Governance" at the VI. Corporate Governance Summit organized by the TKYD.

On a consolidated basis, TSKB had TL 3.1 billion in shareholders' equity and TL 24.9 billion in total assets at end-2016. In its review, Fitch Ratings affirmed TSKB a long-term local currency IDR rating of "BBB-", foreign currency IDR of "BB+" and a national rating of "AAA", with a "stable" outlook for all. On 26 September 2016, Moody's revised TSKB's long-term issuer rating to "Ba1", assigning a "stable" outlook. The Bank's baseline credit assessment was affirmed as 'ba2', while the short-term issuer rating remained unchanged.

[www.tskb.com.tr](http://www.tskb.com.tr)

## İşbank Germany

### A leading financial institution backed by Turkish capital in Europe

Founded by İşbank in 1992 in Germany to engage in commercial banking in Europe, İşbank Germany is today one of the leading financial institutions backed by Turkish capital in Europe.

Headquartered in Frankfurt, İşbank Germany operates through 17 branches, 13 of which are located in Germany, with one each in the Netherlands, France, Switzerland and Bulgaria. As of end-September 2016, İşbank Germany had EUR 1,213 million in total assets and EUR 134 million in total shareholders' equity on an unconsolidated basis. İşbank Germany offers trade finance, corporate banking and retail banking products and services to customers both in Turkey and Europe, as well as services for real estate financing.

[www.isbank.de](http://www.isbank.de)

## İşbank Russia

### Serving customers at 5 locations in Russia

İşbank Russia, operating in the Russian Federation, was acquired and added to İşbank's subsidiaries portfolio in April 2011 to develop and expand İşbank's international banking activities.

With 159 employees on its payroll at the end of 2016, İşbank Russia operates through 5 branches in Moscow, Saint Petersburg, Novosibirsk and Kazan.

As of September 2016, İşbank Russia had USD 183 million in total assets and USD 62 million in shareholders' equity.

[www.isbank.com.ru](http://www.isbank.com.ru)

## İşbank Georgia

### İşbank's New Organization in Georgia

A wholly-owned subsidiary of İşbank, İşbank Georgia is serving its clients with two branches in Batumi and Tbilisi as of 2016 year end.

The Bank had 52 employees on its payroll at the end of 2016 and posted USD 97 million in total assets and USD 14 million in shareholders' equity as of September 2016.

[www.isbank.ge](http://www.isbank.ge)

## Anadolu Hayat

### The first publicly floated private pension and life insurance company

Turkey's first life insurer, Anadolu Hayat Emeklilik A.Ş. (Anadolu Hayat) is also the first publicly-held company operating in the country's private pension and life insurance sector.

At the end of 2016, Anadolu Hayat had total assets worth TL 14.4 billion and shareholders' equity of TL 867 million on a consolidated basis.

[www.anadoluhayat.com.tr](http://www.anadoluhayat.com.tr)

## Activities

## Subsidiaries

## Anadolu Sigorta

## The pioneer of the Turkish insurance sector

Being one of Turkey's leading non-life insurance companies, Anadolu Sigorta Anonim Türk Sigorta Şirketi (Anadolu Sigorta) posted TL 4.5 billion in premium production as at year-end 2016. At the end of 2016, the Company had TL 5.7 billion in total assets and TL 969 million in shareholders' equity on a consolidated basis. The Company was assigned a score of 9.30 in the latest Corporate Governance Rating Report issued in November 2016.

Milli Reasürans holds 57.3% interest in the capital of Anadolu Sigorta.

[www.anadolusigorta.com.tr](http://www.anadolusigorta.com.tr)

## Milli Reasürans

## Uninterrupted reinsurance services since 1929

Millî Reasürans T.A.Ş. (Milli Reasürans), the long-standing reinsurance company in the Turkish reinsurance sector, was founded in 1929.

The financial strength rating of Milli Reasürans, the only reinsurance company backed by national capital operating in Turkey, was affirmed as 'B+' in June 2016 by A.M. Best, the world's most reputable rating institution in the insurance sector. The Company's national credit rating was 'tr AA' as at 31 December 2016, as rated by Standard & Poor's.

Milli Reasürans has a branch in Singapore, which was set up in line with the Company's strategy to export its know-how and reinsurance experience acquired

in the national market to global markets. At the end of 2016, premiums written abroad accounted for 25% of the Company's total written premiums. On a consolidated basis, the Company's total assets were worth TL 8 billion and shareholders' equity totaled TL 1.8 billion at year-end-2016.

[www.millire.com](http://www.millire.com)

## İş Leasing

## Turkey's pioneering financial leasing company

Having been one of the pioneers of the leasing sector in Turkey since its foundation in 1988, İş Finansal Kiralama A.Ş. (İş Leasing) pursues operations with the mission of giving priority to funding SMEs, developing and maintaining a broad-based and high-quality portfolio and satisfying customer demands with effective, fast and high-quality solutions.

At the end of 2016, İş Leasing had TL 7.5 billion in total assets and TL 830 million in shareholders' equity on a consolidated basis, while its leasing receivables amounted to TL 4 billion.

The international credit rating agency Fitch Ratings assigned İş Leasing a long-term foreign currency rating, a long-term local currency IDR of "BB+" and a long-term national credit rating of "AA+ (tur)". The Company received a corporate governance rating of 9.17 on a scale of 10 in December 2016.

[www.isleasing.com.tr](http://www.isleasing.com.tr)

## İş GYO

## One of Turkey's largest real estate investment trusts

İş Gayrimenkul Yatırım Ortaklığı A.Ş. (İş GYO) maintains a portfolio of real estate properties, consistently enhancing their quality and also develops new projects aimed at further expanding and diversifying the portfolio. The Company was given a score of 9.34 in the Corporate Governance Rating Revision Report issued in December 2016.

As of year-end 2016, the Company's total assets amounted to TL 4.9 billion and its shareholders' equity totaled TL 3.2 billion. As of the same date, İş GYO ranked fourth in terms of market capitalization in a market where 31 REITs are active.

At the Sign of the City Awards 2016 Competition that is regarded as an important recognition program in the real estate sector, İş GYO was awarded the first prize in the "Best High-Rise Residence / Ongoing" category for its Manzara Adalar Project.

[www.isgyo.com.tr](http://www.isgyo.com.tr)

82% of İşbank's subsidiaries portfolio with a total worth of TL 10.6 billion is traded on Borsa İstanbul.

## İş Yatırım

### A leading and pioneering investment house in the capital markets

İş Yatırım Menkul Değerler A.Ş. (İş Yatırım) offers brokerage services in domestic and international capital markets, investment advisory, private asset management and corporate finance services. İş Yatırım is the only brokerage house in Turkey traded on Borsa İstanbul Stars Market.

At the World's Best Investment Banks 2016, Global Finance named İş Yatırım Turkey's Best Investment Bank.

The Company was granted a CMB Corporate Governance Rating of 9.36 in December 2016.

With its long-term national credit rating affirmed as "AA+" by international rating agency Fitch Ratings in June 2016, İş Yatırım reached TL 6.5 billion total assets and TL 880 million shareholders' equity on a consolidated basis as of year-end 2016.

While debt instruments issued by İş Yatırım are publicly traded on the stock market, İş Yatırım is the first and only local brokerage house in the Turkish capital markets to issue brokerage house warrants.

[www.isyatirim.com.tr](http://www.isyatirim.com.tr)

## GLASS

### Şişecam

#### The founder and the unchanging leader of the Turkish glass industry

Founded in 1935, Türkiye Şişe ve Cam Fabrikaları A.Ş. (Şişecam) is the holding company of Şişecam Group comprising of companies operating in flat glass, glassware, glass packaging and chemicals, mainly soda ash and chromium chemicals. Besides Şişecam -the Group's parent company-, some other Group companies' shares (Trakya Cam, Anadolu Cam, Soda Sanayii and Denizli Cam) are traded on Borsa İstanbul as well.

The Şişecam Group carries out production in facilities and plants located in Turkey as well as in Egypt, Russia, Georgia, Bulgaria, Bosnia-Herzegovina, Italy, Ukraine, Romania, Germany, Hungary, Slovakia and India. Şişecam produced 43% of total glass output outside Turkey (as measured on a tonnage basis) and generated 52% of total sales revenues from facilities based abroad and exports from Turkey to 142 countries which amounted to USD 508 million as of September 2016. The Şişecam Group constantly increases its production capability through investments aimed at creating new capacity.

Positioned as one of Europe's and the world's leading companies in the industry, the Şişecam Group ranked third to fifth in the world and first to fifth in Europe, in terms of its production capacity in glass manufacturing as of December 2016. Most recently, Şişecam acquired Sangalli Vetro Porto Nogaro, the Italian flat glass manufacturer, in 2016, thus becoming Europe's biggest company with respect to flat glass production capacity.

Ranking fourth in Europe in terms of soda production capacity, the Group is the world leader in the production of basic chromium sulphate and sodium bichromate.

As at September 2016, Şişecam had TL 17.3 billion in total consolidated assets and TL 10.6 billion in shareholders' equity.

Standard & Poor's assigned Şişecam a long-term TL and foreign currency credit rating of "BB", with a "negative" outlook. Moody's, on the other hand, affirmed the Company's long-term foreign currency rating as "Ba1" and its outlook as "stable" in September 2016. The Company's Corporate Governance Rating was defined as 9.44 in December 2016.

7 of Şişecam Group companies were listed in the 2015 edition of the "Turkey's Top 500 Industrial Enterprises."

[www.sisecam.com.tr](http://www.sisecam.com.tr)

# Corporate Social Responsibility Activities

İşbank has assumed a pioneering and leading role in the advancement of the society as well as in banking.

The driving force behind Turkey's development, İşbank, takes its activities beyond its core business of banking and extensions and has assumed a pioneering and guiding role in social development, as in many other areas. The Bank invests emphatically not just in the present but also in the future through its initiatives in the fields of education, environment, culture and the arts that it launches or substantially supports in view of that which is best for the society and the environment.

## EDUCATION

### Chess

#### Main sponsor of the Turkish Chess Federation

With the goal of making chess a widely played and easily accessible mass sports in the country, İşbank entered into cooperation with the Turkish Chess Federation and has been a countrywide sponsor of this discipline.

The main motives behind the sponsorship decision included propagating chess particularly among children, making it an easily accessible sport, compensating the lacking aspects of chess education, turning it into a popular and sought after sport across the country and reaching a higher number of gifted children in this respect so as to increase the level and frequency of international achievements.

Since the beginning of İşbank's sponsorship of the Turkish Chess Federation:

- licensed players increased from 30,000 to 698,270,
- chess trainers increased from 2,000 to 80,769,
- chess tournaments increased from 400 to 5,260,
- chess clubs increased from 600 to 1,981 and
- title-holder chess players from 6 to 140.

Medals claimed in international tournaments reached 344.

The titles won to date are presented below:

- 15 world championships, 25 second place and 28 third place titles in worldwide organizations,
- 47 European championships, 51 second place and 45 third place titles in Europe-wide organizations and 4 European Championships as a country.

#### Main sponsor of the Northern Cyprus Chess Federation

In parallel with its sponsorship of the Turkish Chess Federation, İşbank became the sponsor of the Northern Cyprus Chess Federation as well in 2013 with the same objectives. Upon initiation of the sponsorship, chess has become a club activity once a week at primary schools in the Turkish Republic of Northern Cyprus.

İşbank invests emphatically not just in the present but also in the future through its social responsibility initiatives in the fields of education, environment, culture and the arts.

### İşbank chess classes in primary and secondary schools

Chess classes are being opened at schools in order to make chess an easily accessible sport at primary and secondary schools, to encourage children to play chess, to attract the attention of teachers and parents to this area and to supply lacking materials at schools with limited means.

During 2016, 2,750 chess classes were opened, bringing the total number of chess classes opened at schools to 17,591.

### Chess License Cards distributed from İşbank branches

As part of the support extended to chess, licenses allocated by the Turkish Chess Federation are being distributed as Bankamatik debit cards since 2007 in a bid to establish a relationship with players and their families which will live on in the future. License cards are issued in the form of:

- Electron Bankamatik cards for players older than 18 years of age,
- Maestro "First Signature" Bankamatik cards for players aged between 12 and 18,
- A token plastic card for players under the age of 12.

### Playchess.com

In 2008, İşbank launched a cooperation with Playchess.com, the world's largest online chess platform with 250,000 registered users. With this collaboration, the content of the website was translated into Turkish and access to the website was provided through [www.tsf.org.tr](http://www.tsf.org.tr).

8,000 licensed chess players can log in to playchess.com from Turkey and can play online chess free-of-charge.

### İşbank Chess Festival for Children Under 8

İşbank Chess Festival for Children under 8 is being held since 2006 after the end of the academic year to provide children with a fun and a family-friendly chess playing environment.

Due to the high interest it draws, the festival is being organized in Ankara and İzmir since 2014 and made its debut also in the Turkish Republic of Northern Cyprus in 2015. More than 6,500 players participated in the festival to date.

### Turkey Junior and Youth Chess Championship

Turkey Junior and Youth Chess Championship were held in Manavgat, Antalya in 2016. 2,194 players aged 7-18 from 81 cities in Turkey and from the Turkish Republic of Northern Cyprus competed in the championship.

### Türkiye İş Bankası Chess League

Competitions continued to be organized within the frame of "Türkiye İş Bankası Chess League". Hatay Metropolitan Municipality has claimed championship of the Türkiye İş Bankası Chess League in the 2015-2016 season.

Türkiye İş Bankası Chess League is the strongest league in its field in Turkey; and is also recognized as one of the strongest leagues in Europe.

### 81 Students from 81 Cities

Having espoused the mission of "equal opportunities in education", Darüşşafaka Society provides education to students who have lost one or both parents and are in financial need. Darüşşafaka offers high quality education and boarding in contemporary conditions with full scholarship from fifth grade through to the end of high school.

Launched by İşbank in collaboration with Darüşşafaka Society in 2008-2009 academic year, "81 Students from 81 Cities" initiative is one of the most comprehensive and longest-lived projects in the area of education in Turkey. Under the project, each year İşbank covers all educational expenses from the fifth grade through to the end of high school for 81 children from 81 cities who successfully pass the Darüşşafaka Educational Institutions admission exam.

Aiming to support the students' social development as well through the project, social and cultural activities are used as a platform to get together with the students.

### One Million Books, One Million Children

At the end of the 2007-2008 academic year, İşbank launched the "One Million Books, One Million Children" campaign, one of the biggest book related campaigns ever undertaken in Turkey.

## Activities

## Corporate Social Responsibility Activities

With this campaign, the Bank aims to:

- help build on children's cognitive and intellectual skills,
- support the formation of a generation that reads and questions,
- contribute to establishing communication between the Bank and children at an early age.

With the 9th edition of the campaign carried out at the end of 2015-2016 academic year, over 11 million books were distributed to primary and secondary school students.

Under the campaign, students who brought their school report cards to İşbank branches - in Turkey, TRNC, Iraq, the UK and Kosovo- and to İşbank Germany, İşbank Russia or İşbank Georgia were given books as gifts. As in previous years, a certain number of books were printed in the Braille alphabet and delivered to the libraries of schools providing education to visually disabled children in 2016. In addition, books were sent to students of Regional Boarding Secondary Schools and to children boarding in the housing of the General Directorate of Children's Services.

### Book donations to schools and libraries

As an extension of the Bank's social responsibility initiatives seeking to contribute to education, İşbank continues sending the books published by İş Bankası Kültür Yayınları publishing house to schools and public libraries all over the country. In 2016, over 17,000 books were delivered to 1,790 schools and libraries.

### Golden Youth Award

Since 1971, İşbank has presented awards to students who excel in the university admission exams every year under the "Golden Youth" award program. The number of the award recipients topped 3,000.

### ENVIRONMENT

#### 81 Forests in 81 Cities

The "81 Forests in 81 Cities" project was initiated in 2008 in collaboration with the TEMA Foundation and the Ministry of Forestry and Water Affairs.

Aiming to protect the environment and to increase environmental awareness of the society, particularly of children, the project has been instrumental in planting 2,205,000 saplings over a total area of 1,500 hectares in all cities in Turkey and 35,200 saplings were planted to 22 hectares in the TRNC. The project covers the care of the saplings for a five-year period following the planting. Related work continued in 2016. As part of the upkeeping efforts, 950,000 complementary plantings were made to date. Including the complementary plantings, the total number of saplings planted exceeded 3 million.

### CULTURE AND ART

#### Kültür Yayınları

Established in 1956 by Hasan Âli Yücel, the former Minister of Education, Kültür Yayınları has since been carrying on with its publication activities printing works that are both rich in content and superior in print quality.

Attracting widespread interest with its publications, Kültür Yayınları is a publishing house indispensable first and foremost for researchers, as well as readers in general. In 2016, Kültür Yayınları had published more than 3 million books for readers.

#### İş Sanat Concert Hall

İşbank's exhibitions and performing arts activities have taken place under the roof of İş Sanat since 2000. Working to further the country's art life, İş Sanat is one of Turkey's most important art platforms that hosts the performances of national and foreign leading artists, stages children's plays, poetry readings and displays exhibitions.

Having celebrated its 16th year last season, İş Sanat held 27 concerts and dance performances, 6 children's events and 6 poetry readings. In addition, 12 young artists took to the stage at Milli Reasürans within the frame of the "Rising Stars" series.

The events of the 16th season welcomed more than 21,000 attendees.

# 680 thousand people

Visitors of İşbank museum exceeded 680 thousand.

## İş Sanat Art Galleries

Within the scope of gallery operating activities carried out since 1976, İşbank organizes the exhibitions of master artists in plastic arts in Kibele Art Gallery.

In 2015-2016 season, Kibele Art Gallery showcased the retrospective exhibitions of Halil Akdeniz and Habip Aydoğdu and also the two-episode "Art Creators - Art Educators" compilation made up of the works of instructor artists who have contributed to educating younger generations by teaching at art education institutions and gained the foreground with their artistic productions and artist identities.

## Mimar Sinan Fine Arts University - Artworks Conservation and Restoration Laboratory

Conservation and restoration of artworks included in İşbank Art Collection are carried out at the Artworks Conservation and Restoration Laboratory at Mimar Sinan Fine Arts University.

In addition, 40 students are currently enrolled in the University's Artworks Conservation and Restoration BA program, which was established in the 2013-2014 academic year. The program will have its first graduates in 2016-2017 academic year.

## Türkiye İş Bankası Müzesi (İşbank Museum)

Having opened its doors in November 2007, İşbank Museum offers a narrative of the Bank's deep-rooted institutional history and Turkey's economic development with documents, banking equipment, communication devices, photographs, pictures, advertisements, promotional materials and films.

İşbank Museum collection mainly consists of three-dimensional objects that depict the transformation phases of banking in Turkey during the Republican Period and objects that have become an indispensable part of people's daily lives. The pieces in the collection have been obtained from İşbank's branches. In order to secure longevity of the pieces, international museum protection standards are applied to preserve the collection for posterity.

Various workshops targeted at children are conducted at the museum, including Smart Budgeting and Saving, Money Management, Museum Memory, Price Discovery Lab and Reading with the Authors. Additionally, Financial Literacy Training courses are provided for adults. In the 2015-2016 academic year, around 11,000 individuals participated in the workshops at the museum.

İşbank Museum welcomed approximately 100,000 visitors in 2016. The total number of museum visitors since the initial opening of the museum has exceeded 680,000.

## Sponsorships on Archeological Projects

### Zeugma Ancient City "House of the Muses"

Excavations that began in 1987 in the ancient city of Zeugma, situated on the banks of Birecik Reservoir in the southeastern province of Gaziantep's Nizip district, which is one of Turkey's important historic and cultural centers, are in progress. The objects discovered in the excavations are displayed in the Zeugma Open Air Museum.

One of the individual excavation sites in the ancient city of Zeugma, "House of the Muses" excavation sponsorship has been undertaken by İşbank for a period of 5 years starting from 2012.

### Ancient City of Patara

Excavations in the ancient city of Patara in the Kaş district of Antalya, which is one of the most important archeological sites in Turkey, are underway since 1988. Together with Şişecam and TSKB, İşbank has become a sponsor of the excavations for a period of 5 years starting from 2016.

## İstanbul Foundation for Culture and Arts - International İstanbul Music Festival

As a member of the Board of Trustees of the İstanbul Foundation for Culture and Arts, İşbank sponsored the Venice Baroque Orchestra and Patricia Petibon concert at the Hagia Eirene Museum as part of the 44th İstanbul Music Festival.

# İsbank and Sustainability

Having adopted sustainability as a key priority in its banking approach, İsbank takes on an active role in building Turkey's sustainable future.

## Operating cycle shaped within the frame of sustainability concept

In today's rapidly evolving and changing world, strategic missions are imposed on companies in all areas. Responsible for fulfilling vital tasks, the business world is required to integrate sustainability in its business model. In line with its founding philosophy and the sustainability approach it has embraced, İsbank addresses its activities with a holistic perspective and simultaneously manages economic, environmental and social components.

## Growth on the axes of sustainable profitability and productivity

İsbank designs its business models under its strategy of "sustainable, profitable growth based on being the bank closest to its customers".

In line with its target of healthy and consistent growth, İsbank continuously carries on with its high value-added product and service developments, business efficiency enhancements and efforts to reinforce its customer-focused banking approach.

Focused on lowering service costs through effective risk, cost and capital management, the Bank aims to achieve growth by observing sustainable profitability and productivity in its operating cycle.

## The engine of economy ever since 1924

Starting from the first years of the Republic, İsbank has made its knowhow and vast experience available for its customers and contributed to Turkey's sustainable development and growth by allocating funds to the real sector.

## Environmental sensitivity reflected in business processes

In keeping with its goal of passing on a livable world to future generations, İsbank acts as an environmentally aware corporate citizen while carrying out its activities.

Within the framework of its sustainability approach, the Bank has integrated a number of aspects in its business processes, including optimum utilization of natural resources, developing products and services that are environment-friendly or have minimum negative impacts on the environment, managing environmental and social risks in lending processes and raising awareness among stakeholders.

## Growing support for social progress through social responsibility projects

For 92 years, İsbank, acting with awareness of its social responsibility, have been touching people's lives and making positive contributions.

Thanks to its far-reaching social responsibility projects developed in various areas such as education, environment as well as arts and culture, İsbank supports social progress and contributes to enhanced social welfare.

## Dignified working conditions, a decent working environment

İsbank considers it among its key responsibilities to provide employment for the national economy. In this context, İsbank, being one of the biggest employers in Turkey, had more than 24,000 people on its payroll as at year-end 2016.

İsbank places special emphasis on providing its employees with a dignified, contemporary and sustainable working environment.

Adopting transparency as a principle in its HR implementations, İsbank shares processes such as recruitment, performance and career management, personnel rights management and resignation with its employees. Offering equal opportunities to all of its employees, the Bank also complies with the regulations on the protection of employee rights.

İsbank supports professional and personal development of its employees on the back of wide training opportunities provided.

## Cooperation with international initiatives and continuous progress in sustainability

İsbank launched the Sustainability Management System as a set of principles that will steer its efforts to increase the value contributed to its stakeholders, the society and the environment and to manage its operations in a responsible manner.

Adopting the principle of creating long-lasting value in all of its activities, İsbank is included in Borsa İstanbul (BIST) Sustainability Index consisting of the companies traded on the stock exchange and displaying superior performance in corporate sustainability.

Supporting the 10 principles of the UN Global Compact, of which it has been a signatory since 2012, İsbank carries on with its efforts to attain constant progress in these areas. İsbank presents its sustainability efforts to its stakeholders by issuing reports on an annual basis which are in accordance with the Global Reporting Initiative (GRI) standards.

# Annual Report Compliance Opinion



Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No: 29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

## CONVENIENCE TRANSLATION INTO ENGLISH OF THE INDEPENDENT AUDITOR'S REPORT RELATED TO ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH

To the Board of Directors of Türkiye İş Bankası Anonim Şirketi

### Report on the Audit of Board of Directors' Annual Report Based on Standards on Auditing

We have audited the accompanying annual report of Türkiye İş Bankası Anonim Şirketi (the "Bank"), for the year ended 31 December 2016.

#### Board of Directors' Responsibility for the Annual Report

In accordance with the Article 514 of the Turkish Commercial Code No. 6102 ("TCC") and "Regulation on the Principles and Procedures Concerning the Preparation of and Publishing Annual Reports by Banks" published in the Official Gazette dated 1 November 2006 and No. 26333 in accordance with "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of the Turkish Accounting Standards for the matters not regulated by the aforementioned legislations, and for such internal control as management determines is necessary to enable the preparation of the annual report.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the Bank's annual report based on our audit conducted in accordance with Article 397 of the TCC and the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314, whether the consolidated and unconsolidated financial information included in the accompanying annual report is consistent with the Bank's consolidated and unconsolidated financial statements and provides fair presentation.

Our audit has been conducted in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information included in the annual report is consistent with the consolidated and unconsolidated financial statements and provide fair presentation.

An audit involves performing procedures in order to obtain audit evidence about the historical financial information. The procedures selected depend on the auditor's judgment.

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

#### Opinion

In our opinion, the financial information included in the annual report is consistent, in all material respects, with the audited consolidated and unconsolidated financial statements and provides a fair presentation.

#### Report on Other Regulatory Requirements

In accordance with the third clause of the Article 402 of TCC, no material issue has come to our attention that shall be reported about the Bank's ability to continue as a going concern in accordance with TAS 570 Going Concern.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member firm of KPMG International Cooperative

Erdal Tıkmak, SMMM  
Partner

Istanbul, 8 March 2017

# İsbank's Dividend Distribution Policy

İsbank's principles of dividend distribution are set by article 58 of the Articles of Incorporation. According to this article,

"After deducting all general expenses from the income arising from the operations of the Bank within a year, including premiums and bonuses and similar payments to the personnel of the Bank, and funds for all kinds of depreciations, as well as necessary provisions, the net profit obtained shall partly be set aside as contingency reserves and partly distributed in the order, manner and at the rates indicated below:

- a) 1- 5% to statutory reserve fund,
- 2- 5% as provision for probable future losses,
- 3- 10% as first contingency reserve.

If the cause for setting aside of a provision and fund for a probable future loss and/or risk doesn't exist anymore, the remaining fund will be added to first contingency reserve (a/3) after distribution of net profit referred to in paragraph (a).

b) From the balance of the net profit after the reserve fund referred to in paragraph (a) above have been set aside, an amount equal to 6% of the paid up capital represented by Group A, B and C share certificates, shall be distributed to shareholders as the "first dividend".

Should the profit realized in any year be insufficient to provide for the first dividend of 6% referred to above, the balance shall be made up and distributed out of the contingency reserve fund. Provided, however, that any amount thus taken out of the reserve fund shall constitute a charge to be made up out of the profits to be realized in the subsequent years.

c) After the reserve funds specified in the paragraph (a) and the first dividend specified in the paragraph (b) above are set aside from the net profit, the remaining amount is distributed as follows;

10% for founder shares (limited to the portion of TL 250 thousand - two hundred and fifty thousand - of paid capital)

20% is to the employees of the Bank and,

10% as second contingency reserve.

d) After the amounts set forth in paragraphs (a), (b) and (c) have been set aside and distributed, the balance shall be distributed to the shareholders as "second dividend" in the manner stated below and taking into consideration paragraph (e).

1- The net total of the dividends to be distributed to the holders of Group (A) shares as first and second dividends under paragraphs (b) and (d) may not exceed 60% of the capital paid up by them, the net total of the dividends to be distributed to holders of Group (B) shares may not exceed 30 % of the capital paid up by them, and the net total of the dividends to be distributed to holders of Group (C) shares may not exceed 25% of the capital paid up by them.

2- After the amounts set forth in paragraphs (a), (b) and (c) have been set aside and distributed, should the balance be insufficient to distribute the second dividend in the manner specified by the paragraph (1) above, twice the amount of the paid up capital represented by Group (A) shares the actual amount of the capital represented by Group (B) shares, and the 5/6 (five sixth) amount of the capital represented by Group (C) shares shall be taken as the basis, and, total dividends to be paid to the three Groups of shares shall be calculated separately in the distribution of the second dividend.

e) The amount that needs to be added to the statutory reserve under c section of paragraph 2 of Article 519 of the Turkish Commercial Code, shall be set aside.

f) The General Assembly shall, upon proposal of the Board of Directors, decide whether the balance remaining after the distribution and allocation of the net profit as specified above shall be transferred to the extraordinary reserve funds, or carried over to the following year, or up to 80% of such amount be distributed to the shareholders by dividing of the same by the number of shares and the remaining balance be transferred to the extraordinary reserve funds or carried over to the following year.

In the calculation of the dividends to be paid to all three Groups of shares; Group (A) shares will be considered as 40 times the share quantity, due to the reason that 20 Group (A) shares each with a nominal value of TL 500 (this amount is related to the period prior to the Law regarding the Monetary Unit of the Turkish Republic (No:5083) on which the rate of change has not been applied) have been changed with 1 Group (A) share with a nominal value of 1 Kurus, Group (B) shares will be considered as 1.5.times of the share quantity, and Group (C) shares will be considered as the same quantity."

The dividends are distributed within the scope of the related legislation in a manner and at a time determined by General Assembly.

# Agenda of the Annual General Meeting

- 1- Opening Ceremony, establishment of the Council of Chairmanship
2. Presentation, discussion and ratification of the Board of Directors' and Independent Auditors' Reports
3. Examination and ratification of 2016 Balance Sheet and Income Statement
4. Discharge of the Board of Directors from their responsibilities for the transactions and accounts of the year 2016
5. Determination of the dividend distribution and the method and date of allotment of dividends
6. Election of the Members of the Board of Directors
- 7- Determining the allowance for the Members of the Board of Directors
8. Selection of the Independent Audit Company
9. Permitting the members of the Board of Directors as per articles 395 and 396 of the Turkish Commercial Code
10. Presenting information to shareholders on the subjects held in Capital Markets Board (CMB) Corporate Governance Communiqué principle no. 1.3.6.
11. Presenting information to shareholders about the donations

# Summary Report of the Board of Directors

Esteemed shareholders,

Welcome to our Bank's 93rd Ordinary General Meeting.

As we present the Board of Directors' Report, the Balance Sheet and the Income Statement covering the results of our activities in 2016 fiscal year for your review and approval, we respectfully greet all of you here today.

During 2016 when global economic activity somewhat lost pace as compared with 2015, the top issues on the global economic agenda included the monetary policy practices of developed countries' central banks led by the US Federal Reserve (the Fed), the UK decision to exit the European Union membership (Brexit), the US presidential election, heightened geopolitical risks, the performance of the Chinese economy, and the course of oil prices. While growth rates of emerging countries remained flat in this period, economic activity lost pace in developed countries.

Facing major risks rooted in and out of Turkey in recent years, the Turkish economy registered growth rate of 4.5% in the first two quarters of 2016 owing to the acceleration in public spending and rise in consumption expenditures. However, having shrunk by 1.8% in the third quarter because of the uncertainties that resulted from the political developments, the economy's growth rate for the first nine months came in 2.2%. While exports volume was weak due to geopolitical developments, imports declined as a result of the ongoing low energy prices. Hence, imports and exports dwindled by 0.9% and 4.2% on an annual basis, respectively, and foreign trade deficit fell by 11.7% to USD 56 billion. In 2016, current account deficit was relatively flat as compared with the previous year and amounted to USD 32.6 billion. Fiscal discipline was maintained during 2016 and budget realizations were aligned with the targets. While the strong rise in food prices in the first half of 2016 pushed inflation up, the reversal of this tendency in the second half of the year reflected positively on inflation indicators. The annual increase in CPI was registered as 8.5% in December.

After initiating simplification steps in its monetary policy in March 2016, the Central Bank of the Republic of Turkey (CBRT) decreased the overnight lending rate by a total of 250 basis points during the March-September period. In November, the CBRT increased the upper band of the interest rate corridor and policy rate by 25 and 50 basis points, respectively in response to the volatile exchange rates, thereby implementing a measured tightening in monetary policy.

Total assets of the banking sector increased by 16.1% compared with year-end 2015 and amounted to TL 2,598 billion. Declined weighted average funding cost of the CBRT in 2016, combined with the arrangements regarding reserve requirements affected funding costs in the banking sector positively. Although the credit demand performed weakly in the first nine months of the year, the decisions adopted in the second half of the year and particularly the loosened macro-prudential measures on consumer loans in October brought about some recovery in credit demand in the last quarter of the year. While deposits made up the main funding source of the banking industry also in 2016, the industry continued to meet additional funding need through securities issues and international borrowings. Although in September Turkey lost investment grades assigned to her by two rating agencies, the banking industry did not experience any problems in accessing international funds.

For İsbank, 2016 has been a year during which we have attained all of our goals and performed strongly.

When compared on an annual basis, as of 31 December 2016,

- Our lending grew by 14.7% to TL 203.1 billion,
- Our deposits expanded by 15.3% to TL 177.4 billion,
- Our total assets increased by 13.0% to TL 311.6 billion,
- Our shareholders' equity went up by 12.3% to TL 36.0 billion,

and our net profit was registered as TL 4.7 billion.

During 2016, the Bank kept pursuing policies aimed at diversification of resources and at extension of maturities on the funding side. On the placement side, volume expansion was sustained on the back of a prioritized, well-balanced and selective approach while uncompromising in our lending principles. Standing at 2.4% at year-end, our non-performing loans ratio remained well below the sector's average of 3.2%. In a year characterized by a number of negative developments, our Bank's capital adequacy ratio was 15.2%, a figure much higher than the legal requirement. As at year-end, İsbank's RoA and RoE were 1.6% and 13.7%, respectively.

In 2017, it is anticipated that economic growth may gain some momentum, but it might remain below our country's potential growth rate. The capital flows towards emerging countries including Turkey will likely be decided by the decisions of the Fed and the central banks of other developed countries, the political developments and elections in Europe and geopolitical developments. The recent decisions of the economy administration are anticipated to keep affecting particularly the credit growth performance in 2017. For the Turkish banking sector, while maintaining asset quality, sustainable and healthy growth and profitability will remain as the priority target.

Esteemed Shareholders,

We hereby submit our Annual Report, Balance Sheet and Income Statement pertaining to our 2016 activities for your review and approval.

We would like to take this opportunity to express our gratitude to the Turkish public for their steadfast trust in our Bank, to the institutions of the Turkish State for their continuous support, to our employees for their dedicated efforts, and we extend our respects to you, our valued shareholders, for having honored this General Meeting with your presence.

TÜRKİYE İŞ BANKASI A.Ş. BOARD OF DIRECTORS

# Dividend Distribution Proposal

As a result of our activities in 2016, our Bank's net profit for the period was TL 4,701,206,304.97. On the other hand, within the framework of the Turkish Accounting Standard (TAS) n.16 "Tangible Assets" our Bank had TL 32,991,782.83 as prior years' profit (retained earnings) as a result of selling some of our fixed assets, which are being tracked with using revaluation model, in accounting period. Within this framework, the total balance sheet profit was TL 4,734,198,087.80.

TL 206,530,873.00 of the balance sheet profit is composed of return on subsidiaries' shares and real estate sales that is to be kept in a special fund account in the liabilities in order to make use of the exception provisions of the 5th Article of the Corporate Tax Law n.5520 and that is to be used in capital increase, according to the decision taken by our Board of Directors.

On the other hand, taking into consideration the fact that a part of net profit for the period shall be distributed to the employees of the Bank as per the article 58 of Articles of Incorporation; provision was set aside in 2016, using the assumptions made via taking into account the Bank's profit distribution policy, former practices and related regulations and within the framework of "Turkish Accounting Standard (TAS) n. 19-Employee Benefits".

According to this,

- determining the balance sheet profit to be distributed - after adding the "prior years' profit" to the net profit for the period - as TL 4,734,198,087.80,
- It is proposed that the amount of TL 206,530,873.00 from the sale of subsidiaries' shares and real estates, which is not subject to dividend distribution, be transferred to related reserves, the amount of TL 218,250,000.00 which is set aside for the employee dividends be added to distributable balance,
- It is proposed that the distributable balance amount of TL 4,745,917,214.80 to be distributed in accordance with the relevant legislation and article 58 of the Articles of Incorporation of Türkiye İş Bankası A.Ş. as detailed below, including the allocation of TL 1,654,636,226.13 to type one extraordinary reserves as increased within the framework of the provisions of the Banking Law and the Turkish Commercial Code from the amount to be allocated to type one extraordinary reserves, which is 10% of the balance amount of TL 4,745,917,214.80 and after the allocation the residual amount of TL 7,543,794.86 to be transferred to extraordinary reserves.

	TL	
CURRENT PERIOD PROFIT		4,701,206,304.97
PRIOR YEARS' PROFIT		32,991,782.83
NET PERIOD PROFIT		4,734,198,087.80
NON-DISTRIBUTABLE PROFIT		-206,530,873.00
ADDED TO DISTRIBUTION		218,250,000.00
DISTRIBUTABLE PROFIT		4,745,917,214.80
<b>I. FIRST DIVIDEND</b>		
(Articles of Incorporation Art. 58/a-b)		
- For Statutory Reserve Fund 5%	237,295,860.74	
- First Contingency Reserve	2,756,450,773.38	
- First Dividend		
To Group A Shares	60.00	
To Group B Shares	1,740.00	
To Group C Shares	269,998,200.00	3,263,746,634.12
		1,482,170,580.68
<b>II. SECOND DIVIDEND</b>		
(Articles of Incorporation Art.58/c-d-e)		
- To Founders' Shares	8,234.28	
- 20% to Bank Employees	296,434,116.14	
- 10% to Legal Reserves	119,644,415.04	
- 10% to Second Contingency Reserve	148,217,058.07	
- Second Dividend		
To Group A Shares	540.00	
To Group B Shares	6,960.00	
To Group C Shares	854,994,300.00	1,419,305,623.53
		62,864,957.15
<b>III. THIRD DIVIDEND</b>		
(Articles of Incorporation Art.58/f)		
- Third Dividend		
To Group A Shares	1,788.04	
To Group B Shares	1,944.49	
To Group C Shares	50,288,233.19	
- 10% to Legal Reserves	5,029,196.57	55,321,162.29
		7,543,794.86

In case the said proposal is approved by the Bank's General Assembly, dividend will be distributed to the Bank's shareholders starting from 04.04.2017 and gross dividend will be distributed as follows to each group of shares with a nominal value of TL 1.

Share Group	Gross (TL)
For each Group A share with a nominal value of TL 1	2.3880400
For each Group B share with a nominal value of TL 1	0.3670514
For each Group C share with a nominal value of TL 1	0.2611752
For each of the founders' shares	3.3499919

## Corporate Governance

## Board of Directors



1



2



3



7



8



9

**1- H. Ersin Özince  
Chairman**

H. Ersin Özince was born in Havran in 1953 and graduated from Middle East Technical University, Faculty of Administrative Sciences, Business Administration Department. He started his professional career at İşbank as an Assistant Inspector on the Board of Inspectors in 1976. After working in various managerial positions at İşbank, Mr. Özince was promoted to the post of Deputy Chief Executive in 1994 and until he became the 15th CEO of İşbank on 28 October 1998, his responsibilities encompassed the Treasury, Financial Management, Capital Markets, Loans and the Credit Information and Financial Analysis departments of the Bank.

Mr. Ersin Özince was elected as a Board member on 31 March 2011 and 28 March 2014 and he has been serving as the Chairman since 1 April 2011. He was also elected as the Chairman of the Remuneration Committee on 29 December 2011.

In April 2011, Mr. Özince resigned from his role as the Chairman of the Banks' Association of Turkey, which he had been serving in since May 2002.

In addition to his duties at the Bank, he serves as the Chairman of the Board of Türkiye İş Bankası A.Ş. Members Supplementary Pension Fund and the Board of T. Şişe ve Cam Fabrikaları A.Ş.

**2-Füsün Tümsavaş  
Vice Chairman**

Füsün Tümsavaş was born in Ankara in 1957 and graduated from Ankara University, Faculty of Political Science, Department of Economics-Finance. She started her professional career at the Ankara Branch of the Central Bank of the Republic of Turkey in 1979. In 1981, she started to work at İşbank's I. Loans Department as an Officer and subsequently became Assistant Section Head and Assistant Credit Specialist in the same department. Ms. Tümsavaş was appointed Assistant Manager in 1994 and Unit Manager in 1999 in the aforementioned department. She became the Head of Commercial Loans Department in 2004.

Ms. Füsün Tümsavaş was elected to İşbank's Board of Directors on 28 March 2008, 31 March 2011 and 28 March 2014. In addition, she continues her duties as a member of the Credit Committee since 2 April 2008; as the Vice Chairman of the Board of Directors, the Chairman of the Risk Committee, the Chairman of the Audit Committee and the Chairman of the T.R.N.C. Internal Systems Committee since 30 May 2011; and as the Chairman of the Corporate Governance Committee since 27 February 2013.

In addition to her duties at the Bank, Ms. Tümsavaş also serves as the Vice Chairman of the Board of Türkiye İş Bankası A.Ş. Members Supplementary Pension Fund.

**3-Adnan Bali  
Member of the Board and Chief Executive Officer**

Adnan Bali was born in İslahiye in 1962 and graduated from Middle East Technical University, Faculty of Economics and Administrative Sciences, Department of Economics. He joined İşbank as Assistant Inspector on the Board of Inspectors in 1986. He became Assistant Manager in the Treasury Department in 1994 and served as a Unit Manager in the same department in 1997. He was appointed Head of the Treasury Department in 1998. Mr. Bali served as the Manager of the Şişli Branch in 2002 and the Manager of Galata Branch in 2004; he was appointed Deputy Chief Executive on 30 May 2006.

Mr. Adnan Bali was appointed as the 16th Chief Executive Officer of İşbank on 1 April 2011. He has also been serving as the Chairman of the Credit Committee and member of the Risk Committee.

Mr. Adnan Bali is the Chairman of the Board of Directors of Türkiye Sınai Kalkınma Bankası A.Ş. and İşbank AG. He is also member of the Board of Directors of The Banks Association of Turkey (TBB) and Vehbi Koç Foundation, member of the Turkish Industry and Business Association (TUSIAD), İstanbul Foundation for Culture and Arts (IKSV), Turkey Finance Managers Association (Finance Club), Global Relations Forum (GIF), the Institute of International Finance (IIF), IIEB (Institut International D'Etudes Bancaires) and member of the Board of Trustees of Darüşşafaka Society and TEMA Foundation.

**4-Hasan Koçhan  
Member of the Board**

Hasan Koçhan was born in Trabzon in 1957 and graduated from Ankara Academy of Economic and Commercial Sciences, Banking Insurance Trade Institution of Higher Education, Banking Department. Beginning his career at İşbank as an Officer in the Maçka/Trabzon Branch in 1984, Mr. Koçhan was appointed to Bayburt Branch as an Assistant Section Head and served in the same position at Yomra/Trabzon, Bulancak/Giresun and Trabzon Branches. He served as a Sub-Manager and Assistant Manager at the Trabzon Branch. He was appointed as a Branch Manager to Park/Trabzon, Ordu, Gaziantep and İzmit/Kocaeli Branches.

He was elected to İşbank's Board of Directors on 3 November 2008, 31 March 2011 and 28 March 2014. He has also been serving as Member of the Credit Committee since 30 May 2011.

**5-Mustafa Kıcalıoğlu  
Member of the Board**

Mustafa Kıcalıoğlu was born in Silifke in 1946 and graduated from Ankara University, Faculty of Law and completed the Public Administration Postgraduate Expertise Program at the Public Administration Institute for Turkey and the Middle East. He began his career as Prospective Judge in Silifke; then, he served as Aralık and Giresun Deputy Public Prosecutor and as Judge of Baskil, Çankırı, Kocaeli and Ankara. In 2001, Mr. Kıcalıoğlu was elected as a Member of the Supreme Court and he retired due to age limit restriction when he was the Head of the 4th Civil Chamber of the Supreme Court in 2011.

Mr. Mustafa Kıcalıoğlu was elected to İşbank's Board of Directors on 31 March 2011 and 28 March 2014.

**6-Hüseyin Yalçın  
Member of the Board**

Hüseyin Yalçın was born in Kızılca in 1947 and graduated from Middle East Technical University, Faculty of Administrative Sciences, Economics Department. He began his professional career as an elementary school teacher in 1966. Subsequently, he served as an Officer at Dışbank and Turkish Emlak



4



5



6



10



11

Kredi Bank. Between 1977 and 1990, he worked as Inspector, Assistant Manager, Branch Manager and Manager of İzmir Region Foreign Operations at Ziraat Bank. From 1990 to 2000, Mr. Yalçın also served as Deputy Chief Executive and General Manager Consultant at Development Bank of Turkey. From 2000 until 2002, after the transfer of banks to SDIF (Savings Deposit Insurance Fund), he served as Senior Deputy Chief Executive at Yurtbank, Deputy Chief Executive at Sümerbank, Deputy Chief Executive at Kent Portföy and General Manager Consultant at Toprakbank.

Mr. Yalçın was elected to İşbank's Board of Directors on 31 March 2011 and 28 March 2014; he was elected Independent Member of the Board of Directors on 29 March 2013 and 28 March 2014.

#### **7-Murat Vulkan Member of the Board**

Murat Vulkan was born in Ankara in 1957 and is a graduate of Hacettepe University, Faculty of Social and Administrative Sciences, English Language and Literature Department. He started his professional career as an Officer at Kızılay/Ankara Branch in 1982. Subsequently, Mr. Vulkan became Assistant Section Head in 1987, Sub-Manager in 1993 and Assistant Manager in 1995 at the Ankara Branch. He was appointed Manager of the Ereğli/Karadeniz Branch in 1999. From 2001 to 2011, Mr. Vulkan served as Manager of the Kayseri Branch, Regional Manager of the SME Loans Underwriting Division of İstanbul Maltepe Region, Manager of the Yenişehir/Ankara Branch and Manager of the Başkent Corporate Branch.

Mr. Vulkan was elected Member of the Board of Directors on 30 May 2011 and 28 March 2014.

#### **8-Prof. Dr. Turkey Berksoy Member of the Board**

Prof. Dr. Turkey Berksoy was born in 1951 in Elazığ and graduated from İstanbul Academy of Economic and Commercial Sciences. Subsequently, he completed his master's degree at Boğaziçi University and obtained his doctorate from Marmara University. Prof. Dr. Berksoy worked as faculty member and assumed administrative posts at various universities in Turkey, and worked as visiting lecturer at University of East

Anglia School of Development Studies. He currently serves as faculty member and head of the Finance Department at Marmara University, Faculty of Economics.

Prof. Dr. Berksoy, who is a chartered accountant, served as Chairman of the Board at the Finance Research Center at Marmara University, Faculty of Economics and Administrative Science. In addition to his post at the university, he served as adviser in some banks; Auditor on the Board of İşbank; member of the Board of the Tax Reform Commission, The Union of Chambers and Commodity Exchanges of Turkey Private Specialization Commission, Güneş Hayat Sigorta A.Ş., Petkim A.Ş., Ataköy Otelcilik A.Ş., Türkiye Maritime Facilities Inc. and Paşabahçe Cam Sanayi ve Ticaret A.Ş.; member of the Ministry of Finance Tax Council; and independent member of the Board at Anadolu Anonim Türk Sigorta Şirketi, Trakya Cam Sanayii A.Ş. and Türkiye Şişe ve Cam Fabrikaları A.Ş.

Prof. Dr. Turkey Berksoy was elected to İşbank's Board of Directors on 28 March 2014; he was also elected member of the Audit Committee, T.R.N.C. Internal Systems Committee, Corporate Governance Committee, Remuneration Committee and Alternate Member of the Credit Committee on 31 March 2014 and Independent Member of the Board of Directors on 31 March 2015.

#### **9-Kemal Meral Member of the Board**

Kemal Meral was born in 1970, in Ankara and graduated from Southern New Hampshire University, Business Administration Department. He worked at banking sector from 1994 to 1995, Prime Ministry Press Public Relations Undersecretariat between 1996 to 1997 and 2002 to 2014 and various financial institutions between 1997 and 2002.

Mr. Kemal Meral was elected to İşbank's Board of Directors on 28 March 2014.

#### **10-Ulaş Moğultay Member of the Board**

Ulaş Moğultay was born in 1979 in İstanbul and graduated from Boston University, Economics Department. He also completed master's level classwork in International Affairs and Politics at University of Chicago. He holds a master's degree in Economics from Syracuse University and an MBA from Loyola University, Chicago.

From 2005 to 2007, Mr. Moğultay served as Economic Advisor at the World Bank. After completing his MBA at Loyola University between 2008 and 2010, he worked as an Economist at Ülker Group from 2010 to 2013.

Mr. Ulaş Moğultay was elected to İşbank's Board of Directors on 28 March 2014. He has also served as member of the Corporate Social Responsibility Committee since 24 July 2014.

#### **11-Feray Demir Member of the Board**

Feray Demir was born in Ağrı in 1968 and graduated from Business Administration Department of the Faculty of Economics and Administrative Science of Anadolu University. She started her professional career as an Officer at Sefaköy / İstanbul Branch in 1988. She became an Assistant Section Head in 1990, a Section Head in 1995, a Sub-Manager in 1996 and an Assistant Manager in 1999 at the same branch and served at the same position in Commercial Loans Department and Corporate Marketing Department. She was appointed as a Branch Manager to Çarşı-Güneşli/İstanbul Branch in 2005 and served as Head of Commercial Banking Sales Department between 2007-2011. She served as Branch Manager of İstanbul Corporate Branch between 2011-2016.

Ms. Demir was elected to İşbank's Board of Directors on 25 March 2016. On 28 March 2016, she was elected as Member of the Corporate Social Responsibility Committee and alternate Member of the Credit Committee.

In addition to her duties at the Bank, Ms. Demir also serves as member of the Board of Türkiye İş Bankası A.Ş. Members Supplementary Pension Fund.

## Corporate Governance

## Executive Committee



1



2



3



7



8



9

**1-Adnan Bali****Member of the Board and Chief Executive Officer**

Adnan Bali was born in İslahiye in 1962 and graduated from Middle East Technical University, Faculty of Economics and Administrative Sciences, Department of Economics. He joined İşbank as Assistant Inspector on the Board of Inspectors in 1986. He became Assistant Manager in the Treasury Department in 1994 and served as a Unit Manager in the same department in 1997. He was appointed Head of the Treasury Department in 1998. Mr. Bali served as the Manager of the Şişli Branch in 2002 and the Manager of Galata Branch in 2004; he was appointed Deputy Chief Executive on 30 May 2006. Mr. Adnan Bali was appointed as the 16th Chief Executive Officer of İşbank on 1 April 2011. He has also been serving as the Chairman of the Credit Committee and member of the Risk Committee.

Mr. Adnan Bali is the Chairman of the Board of Directors of Türkiye Sınai Kalkınma Bankası A.Ş. and İşbank AG. He is also member of the Board of Directors of The Banks Association of Turkey (TBB) and Vehbi Koç Foundation, member of the Turkish Industry and Business Association (TUSIAD), İstanbul Foundation for Culture and Arts (IKSV), Turkey Finance Managers Association (Finance Club), Global Relations Forum (GIF), the Institute of International Finance (IIF), IIEB (Institut International D'Etudes Bancaires), member of the Board of Trustees of Darüşşafaka Society and TEMA Foundation.

**2-Mahmut Magemizoğlu****Senior Deputy Chief Executive**

Mahmut Magemizoğlu was born in Antakya in 1959 and graduated from Business Administration Department of the Middle East Technical University, Faculty of Administrative Sciences. He also holds a master's degree in Investment Analysis from the University of Stirling in England. He began his professional career at İşbank in 1982 as Assistant Inspector on the Board of Inspectors and has served in various units at İşbank. He was appointed Deputy Chief Executive in 2005 and Senior Deputy Chief Executive in 2016.

**3-Hakan Aran****Deputy Chief Executive**

Hakan Aran was born in Antakya in 1968 and graduated from the Computer Engineering Department of the Middle East Technical University and completed his master's degree in management at Başkent University, the Faculty of Social Sciences. He began his professional career at İşbank as Software Specialist in the IT Department in 1990 and has served in different positions in the IT & Software Development Department since then. He was appointed Deputy Chief Executive on 17 July 2008.

**4-Levent Korba****Deputy Chief Executive**

Levent Korba was born in Muğla in 1960 and graduated from the English Language Department of Dokuz Eylül University, Buca Faculty of Education. He joined İşbank in 1986 as a Candidate Officer in the İzmir Branch and has served in various units and branches at İşbank. He was appointed Deputy Chief Executive on 13 April 2011.

**5-Ertuğrul Bozgedik****Deputy Chief Executive**

Ertuğrul Bozgedik was born in Kayseri in 1964 and graduated from the Economics Department of Ankara University, Faculty of Political Sciences. He joined İşbank in 1986 as Assistant Inspector on the Board of Inspectors and has served in various other units. He was appointed Deputy Chief Executive on 13 April 2011.



4



5



6



10



11

#### **6-Yalçın Sezen** **Deputy Chief Executive**

Yalçın Sezen was born in İzmir in 1965 and graduated from the Political Sciences and Public Administration Department of the Middle East Technical University, Faculty of Economics and Administrative Sciences. He joined İşbank in 1987 as Assistant Inspector on the Board of Inspectors. After serving in various units of İşbank, he was appointed Deputy Chief Executive on 13 April 2011.

#### **7-Senar Akkuş** **Deputy Chief Executive**

Senar Akkuş was born in Diyarbakır in 1969 and graduated from the Economics Department of the Middle East Technical University, Faculty of Economics and Administrative Sciences in 1991. She joined İşbank as Assistant Specialist in the Treasury Department in 1991. After serving in other various units at İşbank, she was appointed Deputy Chief Executive on 13 April 2011.

#### **8-Yılmaz Ertürk** **Deputy Chief Executive**

Yılmaz Ertürk was born in İstanbul in 1964 and graduated from the Faculty of Economics at İstanbul University and received his master's degree from the same university, Institute of Social Sciences. He joined İşbank as Assistant Specialist in the Economic Research Division. Mr. Ertürk has served in various units at İşbank and the Kozyatağı Corporate Branch; he was appointed Deputy Chief Executive on 30 January 2013.

#### **9-Ergün Yorulmaz** **Deputy Chief Executive**

Ergün Yorulmaz was born in Amasya in 1959 and graduated from Marketing Department of the Atatürk University, Faculty of Administrative Sciences. He joined İşbank in 1983 as Officer at the Arapcamii Branch and served in various other units and branches at the Bank. He was appointed Deputy Chief Executive on 27 December 2013.

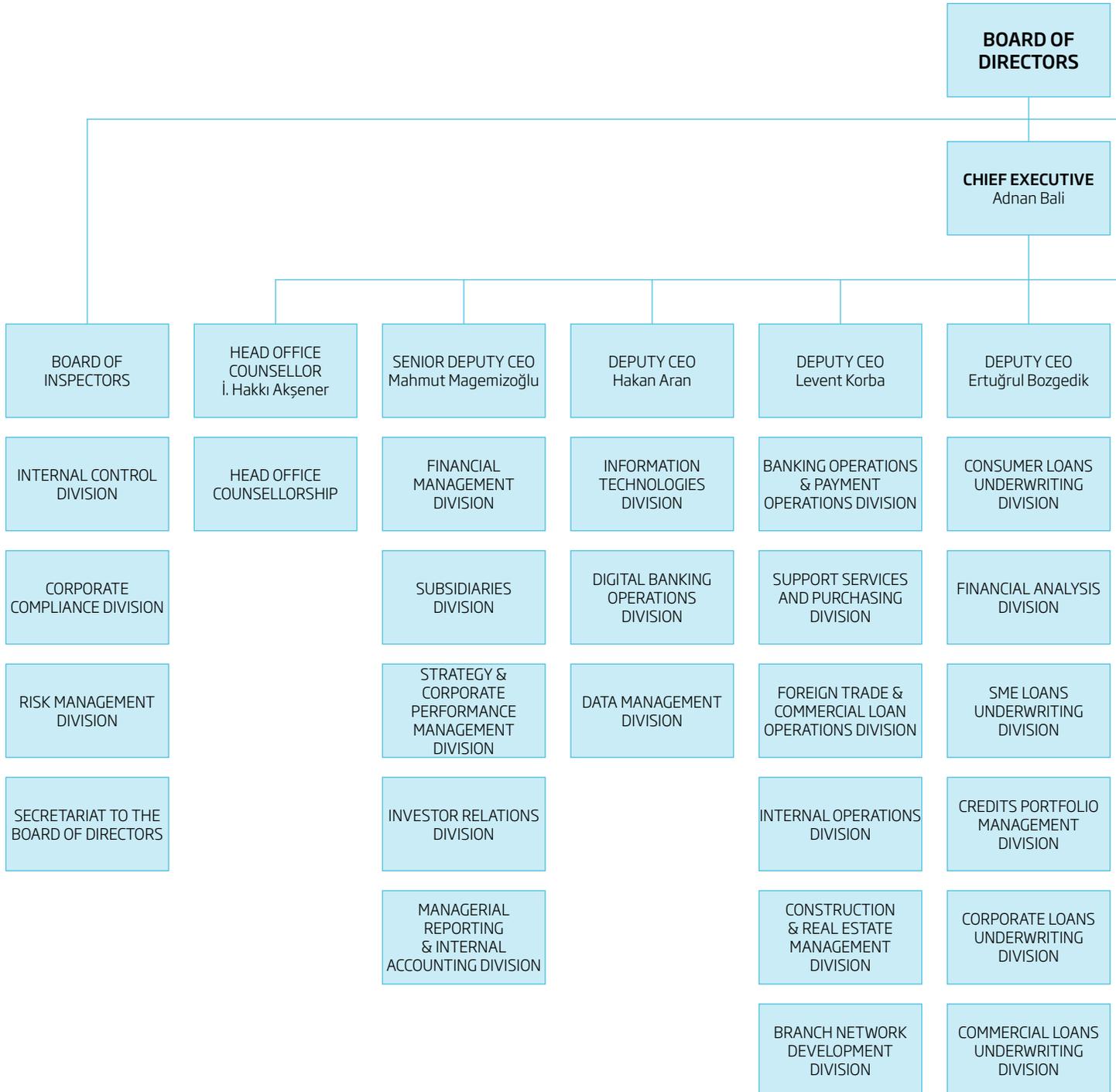
#### **10-Murat Bilgiç** **Deputy Chief Executive**

Murat Bilgiç was born in Ankara in 1968 and graduated from the International Relations Department of the Middle East Technical University, Faculty of Economic and Administrative Sciences. He holds a Master's degree in Money-Banking-Finance from the University of Birmingham. He attended the Advanced Management Program in Harvard Business School. He joined İşbank in 1990 as Assistant Inspector on the Board of Inspectors and served in various units at the Bank. He was appointed Deputy Chief Executive on 25 March 2016.

#### **11- N. Burak Seyrek** **Deputy Chief Executive**

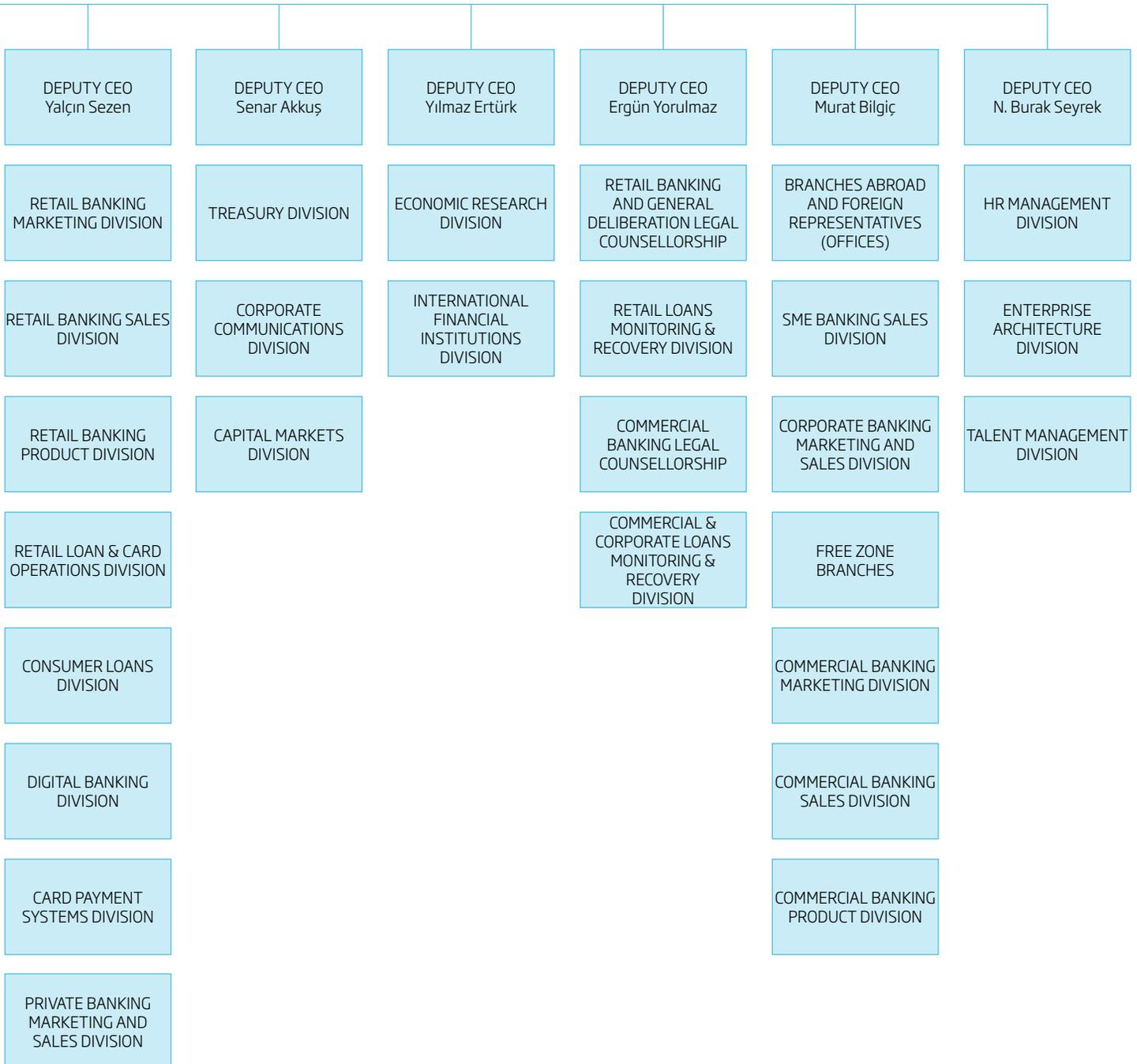
N. Burak Seyrek was born in Ankara in 1970 and graduated from the International Relations Department of Ankara University, Faculty of Political Sciences. He joined İşbank in 1990 as Assistant Specialist at Staff Training Department. He served in various units at the Bank. In addition, he served as Chief Executive Officer at İşbank AG which is a subsidiary of our Bank located in Germany. He was appointed Deputy Chief Executive on 25 March 2016.

# Organization Chart<sup>(\*)</sup>



<sup>(\*)</sup> As of 31.12.2016

**AUDIT COMMITTEE.**  
Füsun Tümsavaş  
Prof. Dr. Turkey Berksoy



## Corporate Governance

## Changes in the Organizational Structure

None.

## Managers of Internal Systems

Names and surnames, terms of office, areas of responsibility, academic backgrounds and professional experiences of managers of Internal Systems, which consists of Board of Inspectors, Risk Management Division, Corporate Compliance Division and Internal Control Division, are presented below.

**Chairman of the Board of Inspectors: Ömer Karakuş**

Term of Office	Professional Experience	Departments Worked Previously	Academic Background
1 year	27 years	Board of Inspectors, HR Management Division, Yenişehir/Ankara Branch, Financial Management Division	B.A. Degree from a Domestic University

**Head of Risk Management: Gamze Yalçın**

Term of Office	Professional Experience	Departments Worked Previously	Academic Background
5 year 9 months	23 years	Organization Division, Accounting Division, Risk Management Division	B.A. Degree from a Domestic University M.S. Degree from a Foreign University

**Head of Corporate Compliance Division (Compliance Officer): Muzaffer Okay**

Term of Office	Professional Experience	Departments Worked Previously	Academic Background
2 year 10 months	25 years	Board of Inspectors, Non-performing Loans Division, Commercial and Corporate Loans Monitoring & Recovery Division	B.A. Degree from a Domestic University

**Head of Internal Control: Hamit Umut Togay**

Term of Office	Professional Experience	Departments Worked Previously	Academic Background
2 year 10 months	19 years	Board of Inspectors, Retail Banking Product Division, Galata Branch	B.A. Degree from a Domestic University

## Information about the Meetings of the Board of Directors

In İşbank, the Board meetings are generally held at least once a month, yet interim meetings might be held in case of need. Meeting agendas are prepared in accordance with the proposals of Head Office departments. Moreover, various reports requested by the Board of Directors from the Bank management and off the agenda topics put forward by the Board members are discussed during the meetings. Meeting agenda and related documents are distributed to the Board members in a particular time before the meetings.

By the end of 2016, 15 Board meetings were held and 14 of them were held by full participation. 598 pages of minutes were recorded for the said meetings, which lasted 51 hours in total. As of 2016 year-end a total of 262 files were reviewed, which split as 199 files for loan underwriting and 63 files on other issues regarding loans; based on the work carried out by convening meetings or by individual review and signing of the file by each Board Member, which resulted in 179 loan decisions. A total of 260 files were reviewed on non-credit matters and 260 resolutions were taken. Consequently, 593 Board resolutions were made in 2016, including 154 those that were passed during the meetings.

# İşbank Committees

## Assessments on İşbank Committees

İşbank committees presented their decisions and reports to Board of Directors in 2016, and the necessary decisions have been taken as a result of the assessment of Board of Directors.

## The Audit Committee

The Audit Committee has two members and is chaired by Ms. Füsün Tümsavaş, Vice Chairman of the Board of Directors, by the resolution of the Board of Directors dated 31.03.2014 and Nr. 39809. The other member of the Committee is Prof. Dr. Turkey Berksoy, who is also a member of the Board.

Pursuant to its working principles, Audit Committee is responsible for holding meetings at least twice a year provided that six- month periods are not exceeded, and it is obligated to inform the Board of Directors about the results of the activities it carried out and measures to be taken based on these results and about necessary practices to be implemented. Moreover the Audit Committee is obligated to provide its recommendations regarding other issues that are deemed significant for the Bank in order to carry out its activities safely. Audit Committee works in collaboration with the Remuneration Committee and the Risk Committee.

The Audit Committee is in charge of:

- ensuring that the internal systems of the Bank function efficiently and sufficiently, that these systems and the accounting and reporting systems operate within the framework of the related regulations and the Bank's policies and that the information produced has integrity,
- making preliminary assessment necessary to select independent audit firms, rating, valuation and support service institutions; regularly monitoring the activities of these institutions selected by the Board of Directors; evaluating them periodically within the context of the provisions of the legislation; providing information to the Board of Directors,
- reviewing the assessments of the independent audit firms, evaluating independent audit results, and making discussions with the independent auditors,
- informing the Board of Directors about findings of the independent auditors and internal systems departments, and about measures taken by the top management and by the units reporting to the top management,
- ensuring that the internal audit functions of subsidiaries that are subject to consolidation are coordinated in line with the related regulations,
- receiving information and reports about internal systems and functioning of departments within the scope of internal systems, their operations including consolidated risks, and about related policies and regulations,
- ensuring that the financial reports of the Bank are issued in conformity with relevant legislations, regulations and standards,
- making assessments in order to ensure whether or not required procedures and principles have been implemented for detecting, measuring, monitoring and controlling potential and existing risks incurred by the Bank; ensuring that risk framework and risk culture, in line with the Bank's structure and operations, are established within the Bank,
- ensuring that internal capital adequacy evaluation process (İSEDES) includes all risks in a consolidated manner, auditing and control processes are established to provide required assurance about its adequacy and accuracy,
- evaluating professional education levels and competency of managers and personnel assuming duties in departments within the scope of internal systems; making suggestions to the Board of Directors for the selection of managers, as well as presenting opinion to the Board of Directors during their dismissal,
- establishing communication channels to make sure that information will be provided directly to the Audit Committee or to the internal audit unit or to the Bank inspectors in case of Bank fraud.
- if required, gathering information, documents or reports from all Bank units, support service contractors and independent auditors and being subject to Board approval, receiving consultancy from those who are specialists in their respective fields,
- reporting to and informing the Board about the results of its own operations, the measures needed to be taken in order for the Bank's operations to be within the framework of the related legislation and Bank policies in a continuous and secure way and its evaluation, opinion and recommendation on any other issues that are deemed to be important,
- fulfilling other responsibilities determined by the related legislations and the duties given by the Board within this framework.

As the end of 2016, Audit Committee held 33 meetings with full participation and adopted 42 resolutions.

## Corporate Governance

## İsbank Committees

## Turkish Republic of Northern Cyprus (T.R.N.C.) Internal Systems Committee

As per the resolution of the Board of Directors, dated 15.06.2009, Nr. 35546, T.R.N.C. Internal Systems Committee is established within the framework of T.R.N.C. Banking Law and related regulations. The Committee has two members and as per the resolution of the Board of Directors, dated 31.03.2014, Nr. 39810 the Committee is chaired by Ms. Füsün Tümsavaş, who is the Vice Chairman of the Board of Directors. The other member of the committee is Prof. Dr. Turkey Berksoy, who is also a member of the Board.

The Committee holds meetings at least twice a year provided that a six month period is not exceeded and informs the Board of Directors on the results of its own activities, its opinion on the measures needed to be taken and the necessary practices to be implemented by the branches, that operate under T.R.N.C. office, and other important issues in order for these branches to operate in a secure way.

T.R.N.C. Internal Systems Committee is responsible for ensuring the efficiency and sufficiency of the internal systems provided by the Bank in relation to the operation of the branches, that operate under T.R.N.C. office; ensuring the operation of the internal systems, accounting and reporting systems in line with the law and related regulations and ensuring the integrity of the produced information; carrying out the preliminary assessment of independent audit firms and other companies providing services directly related to other banking operations to be selected by the Board; and monitoring regularly and coordinating these companies that are selected and contracted by the Board.

As of 2016 year-end, T.R.N.C. Internal Systems Committee held meetings 6 times and took 6 resolutions.

## Credit Committee

İsbank's Credit Committee makes resolutions on credit allocation within its authorization limit, makes decisions on demands to change the credit allocation conditions within its authorization limit and carries out other assignments regarding credits given by the Board.

Credit Committee consists of three members; one of them is the Chief Executive Officer or Deputy Chief Executive, who is also the chairman of the Committee and two members from the Board of Directors. Two alternate Committee Members are also designated who will stand if need arises.

As the loan proposal files are presented, the Committee makes decision on the credit allocation with consensus, after each Committee Member examines and signs the files. Resolutions of the Credit Committee which have unanimous backing are executed directly while resolutions made on a majority basis are executed following the approval of the Board of Directors.

By the end of 2016, by the evaluation of 60 files under the authority of the Credit Committee, 49 resolutions were adopted with full participation of the members.

As per the resolution of the Board of Directors, dated 28.03.2016, Nr. 41120, Chief Executive Officer, Mr. Adnan Bali is the Chairman of the Committee and regular member, the Vice Chairman of the Board of Directors Ms. Füsün Tümsavaş and the member of the Board Mr. Hasan Koçhan are the Credit Committee members. Board members Prof. Dr. Turkey Berksoy and Ms. Feray Demir are alternate members of the Credit Committee. Ms. Aysel Tacer worked as an alternate member in the Credit Committee instead of Ms. Feray Demir until 21.03.2016.

Committee Members	Duty	Primary Duty
Adnan Bali	Chairman of the Committee	Member of the Board and Chief Executive Officer
Füsün Tümsavaş	Member	Vice Chairman of the Board
Hasan Koçhan	Member	Board Member

Alternate Members: Prof. Dr. Turkey Berksoy - Ms. Feray Demir

## Credit Revision Committee

Being one of the committees of the Board of Directors, the Credit Revision Committee is constituted every year as per the article of Revision of Limits within the context of Credit Risk Policy put in effect as per the resolution of Board of Directors, dated 31.07.2012, Nr. 38485. The Committee holds meetings at least once a year within the framework of the principle of reviewing the loan portfolio, evaluating the relations with credit customers at the end of the year and revising, when necessary, the credit limits allocated to the said persons and corporations for the following year.

As per the resolution of the Board of Directors' dated 22.12.2015, Nr. 40909, Credit Revision Committee, composed of the Vice Chairman of the Board of Directors, Ms. Füsün Tümsavaş, and Members of the Board of Directors, Mr. Hasan Koçhan, Ms. Aysel Tacer and Mr. Murat Vulkan, completed their examinations for the year 2016, related to certain companies and groups under the authority of the Board of Directors and Credit Committee on 21.03.2016.

On the other hand, as per the Board of Directors' resolution dated 19.12.2016, Nr. 41505, Credit Revision Committee, composed of the Vice Chairman of the Board of Directors, Ms. Füsün Tümsavaş, and Members of the Board of Directors, Mr. Hasan Koçhan, Mr. Murat Vulkan and Ms. Feray Demir continues to carry out its activities for 2017.

## Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee was established as per the Regulation on Social Responsibility Practice, which was adopted with the resolution of the Board and its members are Board Members Mr. Ulaş Moğultay and Ms. Feray Demir, Vice Chief Executives Mr. Yalçın Sezen, Ms. Senar Akkuş and Head of the Corporate Communications Division Mr. Suat E. Sözen.

The Committee operates in accordance with the Regulation principles, by considering the basic fields of contribution, which are determined as education, environment, art and culture and other activities.

In 2016, Corporate Social Responsibility Committee held 7 meetings with full participation and adopted a total of 27 resolutions.

## Corporate Governance Committee

As per the resolution of the Board of Directors dated 27.02.2013, Nr. 38923, the Corporate Governance Committee was established in order to monitor the Bank's compliance with the corporate governance principles, perform studies for improvement in corporate governance practices and make suggestions to the Board and fulfill the projected tasks of Corporate Governance Committee and Nomination Committee to be in accordance with the related legislation. The Corporate Governance Committee is composed of one chairman and two members. With the decision n.39812, dated 31.03.2014; Board of Directors' Deputy Chairman Ms. Füsün Tümsavaş was elected as the Chairman of the Committee, and the Board of Directors' Member Prof. Dr. Turkey Berksoy and the Investor Relations Department Manager Mr. Süleyman H. Özcan were elected as Committee Members.

As of 2016 year-end, the Corporate Governance Committee convened 4 times and took 6 decisions.

## Risk Committee

Risk Committee is responsible for formulating the risk management strategies and policies İşbank will adhere to both on a consolidated and unconsolidated basis, presenting them to the İşbank Board of Directors for approval, and monitoring compliance with them. Committee is the common communication platform with Bank's executive divisions in terms of assessing the risk the Bank is exposed, making suggestions about the precautions to be taken and methods to be followed. The Committee's principal duties are the following:

- Prepare the risk strategies and policies, and present to the Board for approval.
- Monitoring the effective usage of outcomes of the internal capital adequacy assessment process in the planning and decision making processes of the Bank.
- Adjudicate by negotiating the issues addressed by Risk Management Division.
- Recommend to the Board the level of risk limits for exposures/possible exposures, monitor the breach of limits and recommend to the Board regarding elimination of those breaches.
- Recommend to the Board changes in risk policies if diverse circumstances require.
- Monitor risk identification, definition, measurement, assessment, and management processes carried out by Risk Management Division.
- Monitor accuracy and reliability concerning the risk measurement methodologies and their results.

Committee Members:

- Füsün Tümsavaş: Vice Chairman of Board of Directors and Head of Risk Committee
- Adnan Bali: CEO, Head of Credit Committee
- Mahmut Magemizoğlu: Senior Deputy Chief Executive
- Ertuğrul Bozgedik: Deputy Chief Executive
- Senar Akkuş: Deputy Chief Executive, Head of Asset & Liability Management Committee
- Gamze Yalçın: Head of Risk Management Division

Risk Committee contributes to the configuration of Group risk policies also through consolidated group meetings. In the activities that the Risk Committee carries out on a consolidated basis,

- Hansu Uçar, Head of Equity Participations Division

also attends the meetings.

In the Risk Committee meetings held in 2016, risk management practices of İşbank and its subsidiaries under Consolidated Risk Policies were evaluated, risk reports presented to the Committee were analyzed and 7 decisions regarding the risk management systems and processes were taken.

## Corporate Governance

# İşbank Committees

### Remuneration Committee

As per the resolution of the Board of Directors, dated 29.12.2011, Nr. 38038, Remuneration Committee has been established for the purpose of executing functions and activities related to monitoring and controlling remuneration policies of the Bank on behalf of Board of Directors. The Committee has two members; Mr. H. Ersin Özince, the Chairman of the Board, was elected as the Chairman of the Committee and Prof. Dr. Turkey Berksoy was elected as the member of the Committee dated 31.03.2014 and Nr. 39813.

Provided that it doesn't exceed six-month periods, the Remuneration Committee convenes at least twice a year and submits to the Board of Directors the results of the activities that it carries out and its opinions regarding other issues that it deems important.

Within the framework of compliance to Corporate Governance Principles, Remuneration Committee is responsible for monitoring and controlling policies related to remuneration management on behalf of Board of Directors within the context of compliance to Corporate Governance Principles; providing that remuneration policies are in compliance with the Bank's ethical values, internal balances and strategic goals. The Committee is also responsible for evaluating remuneration policy and practices within the framework of risk management; submitting the proposals regarding the necessities determined after the evaluations to Board of Directors, as well as fulfilling other responsibilities in accordance with relevant legislations and tasks assigned by the Board of Directors within this framework.

In 2016, Remuneration Committee held 3 meetings with full participation and adopted a total of 3 resolutions.

# Human Resources Practices at İşbank

In line with İşbank's healthy growth strategy, individuals possessing the competencies and qualifications required by the relevant positions were employed using the appropriate assessment tools and methods in 2016. As at year-end 2016, 377 new employees have been hired in Turkey and 38 abroad in various title groups. Employing 24,464 people domestically and 292 people abroad at year-end 2016, the total number of employees has reached 24,756.

In 2016, staffing needs of branches and Head Office departments were fulfilled rapidly. The Bank kept paying attention to assigning candidates at locations that are optimally situated according to their places of residence in order to enhance candidate satisfaction; to this end, regional and city-based recruitment has been carried out and İşbank continued to create employment for the national economy. In addition to that, technological upgrading initiatives were initiated, which are aimed at designing more user-friendly application interfaces. The Bank kept implementing an orientation training named "İşe Merhaba" (Hello to İş) that ensures a faster adjustment process for new hires, which helped İşbank maintain its position as the "Preferred Employer" among candidates.

Also in 2016, the Bank will keep pursuing HR practices that are aligned with the industry and are specific to İşbank. During the reporting period, analyses continued, which were intended to initiate projects for developing the HR solutions in the digital environment that are necessary to ensure conformity of the Bank's corporate strategic priorities with the priorities of the HR Function and to support decision-making mechanisms.

The obligations arising out of Occupational Health and Safety Law no. 6331 are fulfilled by the HR Function. The activities carried out are intended to establish an occupational health and safety culture among the employees, as well as to ensure regulatory compliance.

Managers and management candidates working at branches and Head Office units receive a bonus payment once a year. Care is taken to make sure that bonus payments to managers are commensurate with the employees' performances and also with İşbank's long-term strategy and the risk taken.

Successfully maintaining its vision of being the bank closest to customer in parallel to the rapid digitization across the world, İşbank gives all of its employees access to distance learning applications from a single point and through mobile devices around the clock, in a bid to support the Bank's goals and strategies. Recognizing the fact that the workforce keeps getting younger and young generations have different communication habits than older ones, the Bank introduced "İşVille", an online banking and strategy game intended to vest the training activities in a more entertaining and interesting format through gamification. The game won "Gold" award and ranked first in the Best Learning Game category at the Learning Technologies Awards, Europe's top recognition program organized for technology-based learning tools.

Targeting to offer the participants an active learning experience, the "Learning World" training center opened its doors at Tuzla Technology and Operation Center (in Turkish: TUTOM) during 2016. Initiatives are carried out with the goal of increasing managers' contributions to the Bank's results through a digitization perspective, making use of current information in customer experience and marketing fields that gain continually growing importance owing to the communication channels available in our day; in addition to those, the programs also covered "Data Analytics Academy" specifically deriving insight from big data and turning them into deliverables that make a contribution. Furthermore, advanced measuring and assessment methods were employed to identify improvement areas of managers and employees in a bid to support their personal development, as well as their banking business knowledge. Along this line, activities continued which will eliminate the obstacles preventing high performance of employees and will help them attain their targets.

At İşbank, employee compensation and benefits are determined with a Collective Agreement within the frame of applicable legislation and in accordance with the Remuneration Policy. Related information is presented in the relevant sections of the Annual Report. During 2016, efforts continued to achieve alignment with the arrangements introduced by the "Guide for Good Remuneration Practices at Banks". Within this context, Article 58 concerning profit distribution of the Bank's Articles of Incorporation was amended based on a decision passed in the Bank's General Meeting convened on 28 March 2016, and the provision concerning dividend payment to the Bank's Board of Directors members has been removed and all payments made to non-executive Board members for their duties became fixed. In addition, identified staff have been defined. There were 25 identified staff working at İşbank by the year-end 2016. Compliance activities are in progress for remuneration of identified staff.

## 2017 goals

İşbank's success is a result of the corporate culture and the human resource it possesses. In 2017, the Bank will carry on with its investments in its human resource and keep recruiting new employees, thus continuing to contribute to the national economy. Initiated in 2016, improvement efforts for ensuring candidate satisfaction during employment processes and for increasing efficiency of processes will be brought to completion in 2017. The planned user-friendly application management system is intended to strengthen interaction with the target audience and to enhance candidate satisfaction. On the other hand, publicity activities will be given momentum to remain as the most preferred organization in the financial services industry for the new graduates.

Also in 2017, the Bank will keep pursuing HR practices that are aligned with the industry and are specific to İşbank. In order to reformulate business management models and employee experience in relation to HR processes within the frame of HR functions in line with the Bank's strategies and the digitization across the world, additional targets include the following:

- Developing HR solutions on the digital environment,
- Migrating a large number of HR Information Systems screens used by employees and executive management to the mobile platform so as to give 24/7 access to HR applications,
- Using an application that will allow creation of interactive visuals that will support HR Function data with external data, and increase oversight and decision-making efficiency of Department and Bank managers.

## Corporate Governance

## Information on the Transactions Carried out with İşbank's Risk Group

All İşbank Risk Group companies are provided with the same kind of financial assistance, by the same procedures and policies, as those provided for third parties. The approved credit lines and other lending procedures in favor of İşbank Group companies are analyzed and monitored to ensure compliance with legal requirements. In 2016, the loans extended to the group companies had all been within the regulatory risk limits. Group companies had mainly been involved in credit products and deposits.

## Activities for Which Support Services are Received in Accordance with the Regulation on Procurement of Support Services for Banks

- Support services received from Kurye Net Motorlu Kuryecilik ve Dağıtım Hizmetleri A.Ş. for delivery of credit card products to customer addresses;
- Support services received from Kurye Net Motorlu Kuryecilik ve Dağıtım Hizmetleri A.Ş. for delivery of OGS devices to customer addresses;
- Support services received from Aktif İleti ve Kurye Hizmetleri A.Ş. for delivery of credit card products to customer addresses;
- Support services received from Aktif İleti ve Kurye Hizmetleri A.Ş. for sending Banking Services Agreement to people's addresses who have applied for Anında Müşteri, sending the contract to the Bank's system electronically which is signed with the device called Akıllı Kalem and the transmission of physical contract to the branches;
- Support service received from Provus Bilişim Hizmetleri A.Ş. for printing, enveloping and delivery of credit card abstracts to the General Directorate of Post and Telegraph Organization;
- Support service received from Hobim Bilgi İşlem Hizmetleri A.Ş. for printing, enveloping and delivery of credit card and Merchant abstracts and other document like notice to customer addresses;
- Support services received from Atos Bilişim Danışmanlık ve Müşteri Hizmetleri Sanayi ve Ticaret A.Ş. for sales-oriented external calls;
- Support service received from Loomis Güvenlik Hizmetleri A.Ş. for carrying of cheques, promissory notes, other commercial papers and documents between Group Centers and Banking Operations and Payment Operations Division;
- Support service received from Loomis Güvenlik Hizmetleri A.Ş. for carrying of foreign currency cash between Group Centers and İstanbul Cash Management Center;
- Support services received from Softtech Yazılım Teknolojileri Araştırma Geliştirme ve Pazarlama Tic. A.Ş. for information systems management, information systems infrastructure support, software development, project development, business analysis, systems analysis, project and product consulting, technical support issues;
- Secure e-payment infrastructure service received from Asseco See Teknoloji A.Ş. for electronic commerce;
- Support services received from Accenture Danışmanlık Ltd. Şti. for credit management application;
- Support service received from IBM Global Services İş ve Teknoloji Hizmetleri ve Ticaret Ltd. Şti. for Emergency Center located in İzmir for back up of the system;
- Support service received from E-Kart Elektronik Kart Sistemleri San. ve Tic. A.Ş. for customization of İşbank's credit cards equipped by chip technology;
- Support service received from İş Net Elektronik Bilgi Üretim Dağıtım Ticaret ve İletişim Hizmetleri A.Ş. for operation, management and maintenance of communication networks and for providing sources relating to operation and management of data processing application servers and server operating systems;
- Support service received from Erişim Müşteri Hizmetleri A.Ş. for meeting the demands of the customers using Telephone Branch;
- Support services received from Aras Kurye Servisi A.Ş. for delivery of card products to our customers addresses;
- Support services received from Aras Kurye Servisi A.Ş. for sending Banking Services Agreement to the addresses of applicants apply for "Anında Müşteri" and sending the signed contract to the Bank;
- The service purchased from MARS Sinema Turizm ve Sportif Tesisler İşl. A.Ş. regarding the transfer of balance from POS devices to the prepaid cards
- The service purchased from ATP Ticari Bilgisayar Ağı ve Elektrik Güç Kaynakları Üretim ve Pazarlama Ticaret A.Ş. regarding the transfer of right to use software and document
- The service purchased from Innova Bilişim Çözümleri A.Ş. regarding the use of virtual POS
- The support service purchased from Win Bilgi İletişim Hizmetleri A.Ş. to remind the customers about their debts by calling them for deferred consumer loans and the credit cards
- Services purchased from DDI Teknoloji Bilişim Çözümleri Araştırma ve Geliştirme Hizmetleri Ltd. Şti. for scanning the physical notifications made by public authorities, inputting data over the digital images of the specified index fields, and transferring data on electronic environment to the Bank's system;
- Services purchased from Infina Yazılım A.Ş., for purchasing software, installation, and maintenance, and support services to be received throughout the term of the contract;
- Services purchased from Hobim Digital Elektronik Hizmetler A.Ş. for printing and / or enveloping bank statements of the credit cards and contracted merchants, and other documents like letters and notices;
- Support services received from Bilişim Bilgisayar Hizmetleri Ltd. Şti. for using of payment application on new generation cash registers.
- The service received from Mikrosaray Mikrobilgisayar Paz. ve Tic. A.Ş. on directing customers to the Bank's branches for installing the Bank's application to new generation cash registers;
- Services purchased from R2 Servis Elektrik, Elektronik ve Bilgisayar Teknolojileri San. ve Tic. A.Ş. for maintenance and running the Bank's application on new generation cash registers and
- Support services received from 87 auto dealers for marketing of consumer loans.
- Support services received from 914 retail stores for marketing of retail loans.

# Corporate Governance Principles Compliance Report

## SECTION I - CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

a) İşbank is subject to the provisions stipulated for banks in the Banking legislation and Capital Markets legislation regarding Corporate Governance Principles. The Bank carries out its activities in accordance with the compulsory principles of the Communiqué on Corporate Governance (Communiqué) published by the Capital Markets Board.

b) Bank's practices regarding the non-compulsory provisions of the principles stipulated in the Communiqué are given in the relevant sections below. There are not any changes foreseen to be performed in the Bank's managerial practices within the framework of the principles stipulated in the Communiqué. Within the year, procedures were carried out to develop the structure of the Corporate Governance Principles that the Bank is subject to.

## SECTION II - SHAREHOLDERS

### 2.1. Investor Relations Division

Following list presents the names and contact details of authorized personnel working at the Investor Relations Division, which operates under Mr. Mahmut Magemizoğlu, the Senior Deputy Chief Executive of İşbank.

Name, Surname	Title	Telephone Number	E-mail Address
Süleyman H. Özcan	Division Head	0212 - 316 16 02	Suleyman.Ozcan@isbank.com.tr
Alper Turgal	Unit Manager	0212 - 316 16 10	Alper.Turgal@isbank.com.tr
Can Akıncılar	Unit Manager	0212 - 316 16 08	Can.Akincilar@isbank.com.tr
Derya Sargin Malkoç	Assistant Manager	0212 - 316 16 25	Derya.Sargin@isbank.com.tr

Investor Relations Division Head Süleyman H. Özcan has a Capital Market Activities Advanced Level License and a Corporate Governance Rating Specialist License. The report covering the activities of the Investor Relations Division in 2016, was presented the Board of Directors on 27.12.2016. Following are the principal activities performed by the Investor Relations Division in 2016:

- Responding to information requests of both existing and potential investors, rating agencies, international lenders and other related institutions, which are not categorized as commercial secrets or customer secrets, within the framework of related regulations,
- Participating in domestic and foreign investor meetings and conferences on behalf of İşbank and making presentations to the related parties, when necessary,
- Making public disclosures about the material events and other information subject of announcement through related media and institutions including Borsa İstanbul,
- Keeping the contents of the "Investor Relations" pages at İşbank's corporate website updated,
- Working on the improvement of the Bank's corporate governance practices,
- Coordination of preparations of General Meeting and Annual Report,
- Other activities related to Bank's shareholders,
- Coordinating the Bank's activities regarding its Sustainability Management System and the process of preparing the sustainability report.

In 2016, more than 500 information inquiries were received by the Investor Relations Division either by phone or by email and all inquiries have been replied. In the same year, İşbank participated in 16 foreign conferences for equity investors, and 4 foreign conferences for fixed-income security investors. During these events, the Bank held meetings with the representatives of investment companies amounting to a total number of 285. The number of meetings and teleconferences conducted with analysts and investors by the Bank's Investor Relations Division was 129.

Within the scope of the tasks stipulated in the Paragraph 5-ç of the 11th Article of the Corporate Governance Communiqué, in İşbank;

- Activities regarding corporate governance and public disclosures are carried out by the Investor Relations Division,
- Capital markets activities regarding the securities issued abroad are carried out by the International Financial Institutions Division Department,
- Capital market activities apart from the ones listed above are carried out by the Capital Markets Division.

Pursuing and monitoring the fulfilment of the obligations arising from the Capital Markets legislation is carried out by the Corporate Compliance Division.

## Corporate Governance

# Corporate Governance Principles Compliance Report

### 2.2. Use of Shareholders' Rights to Obtain Information

Information requests of shareholders regarding dividend distribution, capital increase, general meeting, annual report, Bank's financial statements and related issues, received by İsbank via mail, telephone, e-mail and other channels are evaluated and replied in fastest and the most effective way by the Investor Relations Division.

Inquiries related to the Bank are replied by Investor Relations Division. The announcements for the shareholders are made on İsbank's Investor Relations website within the scope of capital increase, dividend distribution, General Meeting and the public disclosure legislation.

İsbank is audited regularly within the framework of primarily the Banking Law and the related legislation.

On the other hand, the Audit Committee, established as required by the Article 24 of the Banking Law, consists of Ms. Füsün Tümsavaş (Vice Chairman) and Prof. Dr. Turkey Berksoy (Member of the Board).

Within the framework of the related regulations, a special auditor may be elected by the General Assembly when necessary, for the investigation of the subjects envisaged in the related regulations. İsbank's Articles of Incorporation do not have a separate regulation for the appointment of a special auditor. There has been no request to assign a special auditor during the related period.

### 2.3. General Shareholders' Meetings

Regulations related to the General Shareholders' Meetings is stated in the Articles of Incorporation and Internal Directive on Working Principles and Procedures of General Assembly, which is publicly disclosed and also available on İsbank's website. As per the related regulations, the agenda of General Shareholders' Meeting and other related issues are made publicly available by means of disclosure on material events and internet before the General Shareholders' Meeting. In addition, İsbank's annual reports prepared for the General Shareholders' Meeting is also presented to the shareholders for their information and examination before the General Shareholders' Meeting is held. Besides shareholders, the representatives of related legal institutions who are entitled to attend General Shareholders' Meetings as per related regulations, might attend the General Meetings.

İsbank Ordinary General Shareholders' Meeting was held both physically and electronically on 28.03.2016. Physical meeting was held at the Auditorium Building located in Headquarters. Announcements, including the agenda of the meeting and sample of proxy statement, were published on the Public Disclosure Platform, the Trade Registry Gazette, Electronic General Shareholders' Meeting System, e-Company platform, media and website of İsbank within the legal periods. 82.8% of the shareholders were represented at the Ordinary General Shareholders' Meeting. Invitations to General Shareholders' Meetings are made within the framework of Capital Market Law and the Turkish Commercial Code as well as the Articles of Incorporation of İsbank. Balance sheet, financial statement footnotes, independent auditors' report, dividend distribution proposal of the Board of Directors and similar detailed information in the annual reports are made available at branches of İsbank to the shareholders before the General Shareholders' Meetings within the legal time period required by related regulations. Upon request, annual reports are provided to the shareholders before the General Shareholders' Meetings.

At İsbank's General Meetings, all shareholders have the right to express their opinions and ask questions on the subjects of the agenda.

Proposals regarding the agenda, which are put forward by shareholders, are concluded as per the legal procedures. The questions asked by the shareholders at the General Meeting held in 2016, were answered during General Meeting. These questions and answers are available on our Bank's website. No proposal regarding agenda has been put forward at the General Meeting held in 2016.

In İsbank, the donations were made within the framework of related legislation. The Bank presented information to shareholders regarding the donations made in the period within the framework of the agenda of the 2016 General Shareholders' Meeting.

Minutes of the General Shareholders' Meetings is published on the Trade Registry Gazette. The aforementioned minutes can be obtained from the related unit of İsbank and they are available on the Bank's corporate website. The actions required with respect to the decisions made at Ordinary General Shareholders' Meeting of 2016 were performed.

Mr. Adnan Bali, Member of the Board of Directors and Chief Executive Officer of İsbank, has a duty as the Chairman of the Board of Türkiye Sınai ve Kalkınma Bankası A.Ş. (TSKB) and İsbank AG, one of the Bank's subsidiaries, within the framework of the consent of the General Assembly dated 28.03.2016 regarding the prohibition to trade with and compete against the company based on related regulations of Turkish Commercial Code.

### 2.4. Voting and Minority Rights

There are explanations on the Bank's capital structure, qualifications of shares and the rights on shares both in the Articles of Incorporation and annual report and these explanations are submitted to the shareholders for their information.

Currently İşbank does not have any Board member elected by the minority shareholders. There is no prohibition for exercising voting rights of the minority shareholders in the election of Board Members. Regarding the minority rights, there are no special provisions in the Articles of Association of İşbank.

İşbank Group companies do not hold any share in İşbank.

### 2.5. Dividend Rights

İşbank's dividend distribution principles are explained in detail in the Articles of Incorporation and as such the dividend distribution policy is shared with the shareholders. İşbank's dividend payment is made within the legal periods. The dividend distribution policy is available in annual report and İşbank's corporate website as well.

On the other hand, dividend distribution proposal of the Board of Directors is also published in the annual report, which is provided to the shareholders prior to the annual Ordinary General Shareholders' Meetings. Dividend distribution is a regular item on the agenda of the General Shareholders' Meeting and is presented for the approval of shareholders and implemented after the approval at General Shareholders' Meeting.

The distribution of 2015 operating profit was made in line with the decisions taken at Ordinary General Shareholders' Meeting held in 2016.

### 2.6. Transfer of Shares

Transfer of shares can be done in accordance with the related legislation and the Articles of Incorporation of İşbank.

## SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY

### 3.1. Türkiye İş Bankası Corporate Website ([www.isbank.com.tr](http://www.isbank.com.tr)) and Its Content

İşbank's website is actively and intensely used for public disclosures and informing activities. The website includes the information and data required by the Corporate Governance Principles and regulatory authorities. Information considered necessary for international investors is available on the Bank's website, in the Investor Relations section also in English. Utmost care is given to keep the website updated.

İşbank's main shareholders and their shares are available on the Bank's corporate website under the title of "Ownership Structure."

### 3.2. Annual Report

İşbank Annual Report is prepared with the necessary information and data required by the related regulations.

## SECTION IV - STAKEHOLDERS

### 4.1. Informing Stakeholders

İşbank's stakeholders are regularly informed about required subjects through press releases, press conferences, interviews, annual reports, news on the website, disclosures and various meetings. Within this context, the necessary corporate organization has been made to fulfil the information demands of shareholders, employees and customers.

Functions related to informing the employees about the human resources practices and policies are conducted by Human Resources Management Division and, in this context, İşbank's Corporate Intranet Portal is used effectively.

The transactions which are subject to complaint can generally be delivered directly to those concerned, Head Office, The Board of Inspectors and The Board of Directors by the stakeholders.

### 4.2. Participation of Stakeholders in the Bank Management

Türkiye İş Bankası A.Ş. employees and pensioners participate in the management of the Bank through İşbank Members' Supplementary Pension Fund, which is a shareholder of the Bank. Other shareholders participate in the decision making process relating to the management of İşbank by voting in the General Shareholders' Meeting in line with the regulations of the Articles of Incorporation.

Furthermore, there is a proposal mechanism by which employees may make suggestions regarding the activities of the Bank. İşbank has an online communication platform through which employees may submit their requests and complaints to the Senior Management directly.

## Corporate Governance

# Corporate Governance Principles Compliance Report

### 4.3. Human Resources Policy

Human Resources Policies of İsbank are based on the principles of equal opportunity, fairness, transparency and performance.

The related policies are implemented with the aim of increasing the means for employee progress adhering to basic rules of conduct and ethical values. Human resources needs are met in line with İsbank's vision and mission in respect of human resources, through recruiting people who have the required qualifications for the job using convenient evaluation methods and instruments. In this context, fundamental recruitment criteria are defined in written format and the hiring processes are carried out according to these criteria.

In principle, only employees from within the institution are employed in İsbank's managerial positions. When there is a need in areas that require special expertise, including professional consulting, external human resources also may be utilized.

Performances of the employees are evaluated within the framework of personnel evaluation criteria suitable to their positions periodically by face to face interviews with the employees; strengths and/or weaknesses of the employees are defined to increase their performances and also to prepare them for a higher position, related development and education schemes are formed; activities are designed for the purpose of realization of these plans and meeting the educational needs. In line with a career management philosophy based on constant development, by taking into account their skills, staff is employed according to their skills at positions that they fit best, in terms of satisfying the needs of the Bank and productivity

İsbank employee candidates are informed about Human Resources practices and hirings through the Bank's website ([www.isbank.com.tr](http://www.isbank.com.tr)).

An orientation program is applied for newly hired personnel for the purpose of accelerating adaptation period and increase efficiency.

Through İsbank's Corporate Intranet Portal, which was formed in order to enhance information sharing within the Corporation and to communicate with employees more effectively, all the employees are given the opportunity to have quick access to the Bank's regulations, activities of divisions, job descriptions and distributions, performance management practices, up-to-date announcements and supplementary sources.

In İsbank there are labor union representatives who are assigned by BASİSEN (Labor Union of Bank-Finance and Insurance Companies) under which İsbank employees are organized. Labor union representatives have a constructive and effective role in forming communication between the Bank and the employees.

Every two years a Collective Bargaining Agreement is signed by the Bank and BASİSEN. The last Collective Bargaining Agreement that covers the period between 01.04.2016 - 31.12.2017, was signed on 29.07.2016. Compensation principles for Bank employees are determined by the Collective Bargaining Agreement and the Agreement is shared with employees through İsbank's Corporate Intranet Portal.

It is essential for İsbank that human rights are respected and that there is not any discrimination based on race, language, religion and sex.

### 4.4. Ethical Principles and Social Responsibility

Together with its equity participations, İsbank is one of the biggest economic players in Turkey with its contribution to economy, public interest oriented vision, high level of employment creation and awareness of social responsibility which is among İsbank's management principles.

İsbank has adopted Code of Banking Ethics published by The Banks Association of Turkey. The code of ethics has been disclosed to the public through the Bank's corporate website.

Since its establishment, focusing seriously on the issues, which are the basic needs of the modern society and which are directly related to the country's future, İsbank supports, within the framework of the Regulation on Social Responsibility Practice formed in 2007, the social responsibility projects in education, environment, culture and arts, which are qualified to be long-lasting, being able to advance the society, far-reaching, sustainable and extendable.

Detailed information regarding these activities can be found on İsbank's corporate website and annual reports.

## SECTION V - BOARD OF DIRECTORS

### 5.1. Structure and Composition of the Board of Directors

Board Members of İşbank are listed below.

Name, Surname	Position
H. Ersin Özince	Chairman
Füsun Tümsavaş*	Vice Chairman
Adnan Bali	Member of the Board and CEO
Hasan Koçhan	Member of the Board
Mustafa Kıcılıoğlu	Member of the Board
Hüseyin Yalçın	Independent Member of the Board
Murat Vulkan	Member of the Board
Prof. Dr. Turky Berksoy	Independent Member of the Board
Kemal Meral	Member of the Board
Ulaş Moğultay	Member of the Board
Feray Demir**	Member of the Board

\* In line with the related regulations, Audit Committee Members are regarded as Independent Members.

\*\* After Aysel Tacer's resignation, Mrs. Feray Demir was elected by the Board of Directors as a Board member to fill the vacant seat to complete the remaining time of her predecessor on 25.03.2016 and this decision was approved at the General Meeting dated 28.03.2016.

Board of Directors, excluding the chief executive officer, comprises of non-executive members.

The election of İşbank Board members is implemented according to article 25 of the Articles of Incorporation and the Banking Law. As per the Banking Law, the Chief Executive Officer of the Bank and, in his absence, his deputy shall be a natural member of the Board.

Backgrounds and terms of office of the Board of Directors of İşbank along with the committees in which they take charge are presented in the annual reports.

Independence declarations of Prof. Dr. Turky Berksoy who was elected as an Independent Member of the Board at the 2015 Ordinary General Meeting and Mr. Hüseyin Yalçın who was elected as an Independent Member of the Board at the 2014 Ordinary General Meeting are quoted below:

"As per the requirements of the legislation, Corporate Governance Principles of Capital Markets Board and the Articles of Incorporation of İşbank, due to my nomination as an "independent member" to the Board of Directors of İşbank, I hereby declare to the committee, İşbank shareholders and all the related parties that;

- Within the last five years, no executive employment relation that would give important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and (i) İşbank and (ii) the subsidiaries of İşbank, and (iii) shareholders who control the management of İşbank or who have significant influence in İşbank and juridical persons controlled by these shareholders; and that I neither possess more than 5% of any and all capital or voting rights or privileged shares nor have significant commercial relations,
- Within the last five years, I have not worked as an executive manager who would have important duties and responsibilities or have not been a member of the Board of Directors or been a shareholder (more than 5%) particularly in the companies that provide auditing, rating and consulting services for the Bank (including tax audit, legal audit, internal audit), and in the companies that the Bank purchase products and services from or sells products and services to within the framework of the agreements signed (during the timeframe of selling/purchasing of the products and services,
- I possess the vocational education, knowledge and experience necessary to fulfill the duties I will assume in connection with being an independent board member,
- I am not working fulltime in public institutions and organizations,
- I am considered as a resident in Turkey according to the Income Tax Law (n.193) dated 31/12/1960,
- I have high ethical standards, goodwill and experience necessary to contribute to İşbank's activities. Maintaining my objectivity in conflicts of interest between İşbank and its shareholders and deciding independently by taking into account the rights of stakeholders,
- I am capable of dedicating sufficient time to be able to observe the Bank's activities and to fulfill the requirements of the duties I undertake,
- I have not been a member of the Board of Directors of İşbank for more than 6 years in total within the last decade,
- I have not been an independent member of the Board of Directors in more than three of the companies controlled by İşbank or by the shareholders who control the management of İşbank and in more than five of the publicly traded companies in total,

## Corporate Governance

# Corporate Governance Principles Compliance Report

- I have not been registered and announced on behalf of the juridical person elected as member of the Board of Directors,
- I still have all the qualifications as per the Corporate Governance Principles to be an independent member and I will protect all these conditions during the duty term in case of being appointed as independent member. I will inform Board of Directors of İsbank and the Capital Markets Board (simultaneously) about the situation in writing including its reasons in case of losing my independency. And thus, I am independent.”

No circumstances arose in the reporting period, which abolished the independence of Independent Board members.

Although there is no restriction for the Board members to work elsewhere, some activities of Board members have been defined as “Forbidden Activities” in article 32 of the Articles of Incorporation of İsbank.

Duties of the Members of the Board of Directors within İsbank Group (İsbank branches, subsidiaries and participations), and the duties they undertake outside the Group, are stated in their résumés. The résumés of the Members of our Board of Directors are available in the annual report and the corporate website of our Bank.

Members of the Board of Directors of İsbank are elected at the General Assembly within the scope of the relevant legislation. As of 2016, there are 2 female members in our Board of Directors which is composed of 11 members.

### 5.2. Fundamentals of the Functions of the Board of Directors

The Board meetings are, as per the Articles of Incorporation, held at least once a month, yet interim meetings might be held in case of need. Meetings are held with physical attendance of the members. Meeting agendas are prepared in accordance with the proposals of Bank’s units. Moreover, various reports requested by the Board of Directors from the Bank management and off the agenda topics put forward by the Board members are discussed during the meetings. Meeting date, agenda and related documents are delivered to the Board members before the meetings according to the principles determined by the Board.

All the discussions during the Board meetings are recorded in the minutes of the Board meetings. As per article 28 of the Articles of Incorporation, the minutes of the Board meetings were recorded to the Board Record Book, but within the framework of the change in regulations, starting from 11 June 2008 separate record books are being kept for the Board Resolutions and the minutes of the Board meetings. When there is a dissenting opinion on an item at the Board meetings, the related dissenting vote is recorded to the Board Record Book. Each Board member has one vote and the Board members do not have any weighted voting rights and/or veto rights.

15 Board meetings were held in 2016. Full participation is generally achieved at the meetings and all the decisions are made in accordance with resolution quorum mentioned in Articles of Incorporation. In 2016, 14 meetings were held by full participation. 593 resolutions were made both during the meetings and by examining files.

Our Bank’s Board of Directors and Executives are insured with a coverage for a limit up to USD 75 million against the risk of loss they may cause due to their faults while performing their duties within the scope of a liability insurance policy that names our Bank and our participations as the insured.

### 5.3. Number, Structure and Independency of the Committees Established within the Board

The administrative and organizational structuring required by the Banking Law Nr. 5411 and related legislation, exists in İsbank. A member of the Board can be appointed to more than one committee within the framework of the related regulation. Whenever it is necessary committees present information about their tasks and meeting results to the Board of Directors.

As per the resolution of the Board of Directors dated 27.02.2013, Nr. 38923, the Corporate Governance Committee was established in order to fulfill the tasks within the context of the related regulation as well as the other duties determined by the Board of Directors. The Committee is chaired by Ms. Füsün Tümsavaş who is also the Vice Chairman of the Board. The other members of the Committee are Prof. Dr. Turkey Berksoy and Investor Relations Department Manager Mr. Süleyman H. Özcan.

In 2016, Corporate Governance Committee held 4 meetings and adopted 6 resolutions. The Committee provides information to the Board of Directors regarding its actions when needed.

The information about İsbank’s other committees, that are established within the framework of the Banking regulation and other related regulations, is given under the caption of “İsbank Committees” in the Annual Report.

#### 5.4. Risk Management and Internal Control

As per article 29 of the Banking Law, banks are obliged to establish and operate adequate and efficient internal control, risk management and internal audit systems that are in harmony with the scope and structure of their activities, that can respond to changing conditions and that cover all their branches and participations subject to consolidation in order to monitor and control the risks that they encounter. Internal controlling activities carried out by the Bank's employees with the awareness of responsibility, are controlled and monitored by the Internal Control Division and the internal control personnel who report to the Board of Directors. Risk Management activities are performed by the Risk Management Division and personnel who report to the Board of Directors. Furthermore, banks have to establish internal audit systems that involve all their units, branches and participations subject to consolidation. In this context, bank inspectors investigate the compliance of the banking activities to the legislation, articles of association, internal regulations and banking principles.

İşbank's internal audit, risk management and internal control systems have been established in accordance with the principles and organization structures as required by domestic regulations in parallel with the best international practices. The units constituting the internal systems are the Board of Inspectors, Internal Control, Risk Management and Corporate Compliance Divisions. The units constituting the internal systems work under the Board of Directors. The effectiveness of the activities of the aforementioned units is monitored by the Audit Committee and the Board of Directors.

Corporate Compliance Division works under the Board of Directors through the Audit Committee on issues regarding the regulation and compliance and along with prevention of laundering of criminal proceeds and financing of terrorism. The main aim and scope of the corporate compliance activities; is to carry out and conduct the activities of the Bank in compliance with the targets, policies, legislation and international corporate governance standards of banking sector as well as "Prevention of Laundering Proceeds of Crime and Financing of Terrorism" principles. In line with this aim, research, investigation, monitoring, evaluating, informing, conducting and reporting activities are carried out. In addition, the Corporate Compliance Division, which is also responsible for the coordination of duties and activities related with compliance and compliance risk, has a mutual communication and cooperation with other related Divisions and employees.

#### 5.5. Strategic Goals of the Bank

İşbank's vision is "to be the most preferred bank by customers, shareholders and employees by maintaining the leading, pioneering and trusted position as a regional financial power" İşbank's mission, in general, is described as meeting the needs of its customers with fast, efficient and high standard solutions, increasing the value it created for its shareholders constantly and being a bank that encourages employees for the maximum performance, and İşbank's strategy is described as "problem-free, sustainable and profitable growth based on being "the bank closest to customers" philosophy in an effort to fulfil its vision and objectives. İşbank's vision, objectives and strategic goals are set by the Executive Committee and disclosed to public via the Bank's website after being approved by the Board of Directors. In this context, The Board of Directors regularly monitors and supervises the performance of the Bank in terms of achieving the general strategic goals. The Business Programme that includes the yearly objectives formed according to the general strategic goals, comes into effect after approval by the Board of Directors. The quarterly performance of the Bank in comparison with the objectives is reported comprehensively to the Board of Directors.

#### 5.6. Remuneration

İşbank carries out its activities regarding remuneration policies within the framework of the related banking regulations and Capital Market regulations. İş Bank's Remuneration Policy is available on the Bank's corporate website in Investor Relations section (page). This policy covers all managers and employees.

Monthly remuneration of the Members of the Board of Directors are determined at İşbank General Meeting and announced on annual basis in Borsa İstanbul.

In 2016, benefits paid to Members of the Board, and the management personnel who have administrative responsibilities as well as the cost of allowance, travel, accommodation, representation, and the opportunities in cash and in kind, insurance and similar guarantees amount to TL 23,635 thousands.

On the other hand, restrictions related with the loans to be extended by İşbank to the Board members and employees are defined in article 50 of the Banking Law. In this context, İşbank does not extend loans to its Board members and employees other than those allowed by the law.

## Corporate Governance

# Audit Committee's Assessments on the Operation of Internal Control, Internal Audit and Risk Management Systems and Its Activities in the Reported Period

## Internal Audit

The İsbank Board of Inspectors reports to the Board of Directors via Audit Committee and is responsible for the auditing activities. By adopting ethical principles stated by banking and internal auditing regulations and "International Standards for the Professional Practice of Internal Auditing", The İsbank Board of Inspectors audits the activities of the Bank's Head Office divisions (including internal control, risk management and corporate compliance divisions), domestic and foreign branches and the subsidiaries, in accordance with the Bank's mission, strategies and policies, as well as relevant laws and regulations. Furthermore, the Board of Inspectors performs the Bank's processes and information systems audits. The Board of Inspectors also carries out preparatory inquiries, fraud examinations and investigations when necessary.

Having been certified to be in conformance with the international quality standards, the İsbank Board of Inspectors combines the Board's fundamental audit experience with advanced technology in a modern, risk-focused approach to perform its duties. The Board's auditing functions are carried out by on-site inspections as well as remotely by using data mining and fraud detection technologies. The number of inspectors hired by the Board is 190.

Depending on their content and priority, audit reports are submitted to the Board of Directors, Audit Committee, senior management and related Head Office divisions. In the meantime, corrective measures taken by the relevant Head Office divisions are monitored by the Board of Inspectors. The Board of Directors monitors activities of the Board of Inspectors through periodic reports presented via the Audit Committee.

During 2016, The Board undertook audits of 587 domestic branches, 6 overseas branches, 8 Head Office departments and 9 subsidiaries. Banking processes and IT audits are conducted annually by the members of The Board of Inspectors in accordance with the "Regulation on Bank Information Systems and Banking Processes Audit to be Performed by External Audit Institutions" that is published by Turkish Banking Regulation and Supervision Agency. Both consolidated and unconsolidated financial statements' preparation process have been evaluated and validated during the financial reporting process audit.

According to the results of the banking processes and IT audits conducted in 2016, as of December 31, 2016 there has been,

- no material weakness in the internal controls over the main banking processes ensuring the Bank to perform efficiently, reliably and continuously,
- no material finding about the integrity, availability, consistency and reliability of the data reported in consolidated and unconsolidated financial statements.

With the help of the risk focused audit plan, The Board audited a considerable portion of İsbank's entire credit portfolio in 2016. The remote auditing activities of the Board has enabled to monitor the major risks especially in loans and human resources regularly and has provided with the ability to counteract before the risks increase further.

## Internal Control

The main objective of the internal control system is to provide the maximum contribution to achieve İsbank's corporate targets set in accordance with the Bank's vision, mission and strategies and stakeholder expectations. To this end, the performance required to ensure that all components of the internal control system operate together in an integrated and effective manner, under the supervision of İsbank's Board of Directors, with the contribution and support of all İsbank's employees, is being rigorously carried out with professional care and attention.

The design and operational effectiveness of the internal control activities carried out by the relevant units in the process are regularly examined by the Internal Control Division which is an independent function. For this purpose, "onsite" and/or "remote" controls have been carried out by the Internal Control Division with a risk focused approach, on the activities of the Bank's domestic and foreign branches and Head Office units, financial reporting and information systems and internal control structures of the subsidiaries subject to consolidation.

The results of the reviews were analyzed by the Internal Control Division and developing proposals, monitoring and follow-up activities intended for eliminating the existing deficiencies and preventing the recurrence of the defects were continued.

In order to contribute to their professional development, İsbank's internal control personnel were provided to participate in various trainings during the year. Internal Control Division also supported the Bank's employees' trainings in order to raise the awareness of internal control activities across the organization.

İsbank's internal control system and internal control activities are structured and operated to make sure that: i) The Bank's assets are protected, ii) The Bank's activities are carried out in compliance with the Law and other relevant legislations, the Bank's internal policies and guidelines, and banking practices, iii) accounting and financial reporting systems function securely and in integrity, and iv) information is provided promptly.

## Compliance

Compliance is the foremost duty and responsibility of all managers and employees of the Bank and financial subsidiaries which are subject to consolidation at any level. The functions and activities regarding compliance executed in the Head Office Divisions, Branches of the Bank local and abroad, financial subsidiaries which are subject to consolidation is monitored through the corporate compliance activities conducted within the Corporate Compliance Division, which reports to the Board of Directors.

Corporate Compliance Division operates with the purpose to provide maximum contribution in order to manage the compliance risk and control this risk in an appropriate and efficient manner and in this regard to execute and manage the activities of the Bank and financial subsidiaries which are subject to consolidation continuously in compliance with the relevant laws, regulations and standards.

The necessary researching, analyzing, monitoring, assessing, informing, conducting, coordinating and reporting activities regarding compliance issues are conducted within the Corporate Compliance Division, which consists of four sub-units, namely, Corporate Compliance, Banking Activities Compliance, Fiscal Offences and Capital Market Instruments Suspicious Transactions Investigation.

The duties and responsibilities of the Compliance Officer as stated in the Prevention of Laundering Proceeds of Crime Law and other related regulations in effect are fulfilled by the Head of Corporate Compliance Division, who is the legal "Compliance Officer" of the Bank as well. The activities regarding the prevention of laundering proceeds of crime and finance of terror in İşbank are executed in an express and efficient manner within the context of related legislations and the Bank's Policy and the Compliance Program, which have been prepared in accordance with these legislations.

Capital Market Instruments Suspicious Transactions Investigation Unit was established in accordance with the Communiqué on Obligation of Notification Regarding Insider Trading or Manipulation Crimes (V-102.1) published in the Official Gazette edition 28889 on 21/01/2014.

Bank's Compliance and Compliance Risk Management Policy and Prevention of Laundering Proceeds of Crime and Finance of Terror Policy are stated in "Investor Relations / Corporate Governance" link at İşbank's website [www.isbank.com.tr](http://www.isbank.com.tr) in English and Turkish.

The results of the activities regarding compliance are also regularly monitored and evaluated by the senior management and the Board of the Bank.

## Risk Management

Besides banking activities, both financial and non-financial risks encompassing the whole group required to be analyzed, monitored and reported from the standpoint of group risk management in addition to that of banking-specific risk management principles. This aspect of risk management, beyond regulatory requirements has become an industry standard for corporate governance.

The risk management process, organized within the framework of advanced risk management methodologies and favors a common risk management culture throughout the establishment, is structured to emphasize good corporate governance, assuring independency of units responsible for monitoring and controlling risk from executive functions, so that risk definition, measurement, analysis, monitoring, reporting, and control functions are carried out within the same framework.

The process of risk management and the functions involved in that process are among the highest priority responsibilities of the İşbank Board of Directors. The Risk Management Division, reports to the Board of Directors via the Audit Committee and acts through the Risk Committee and forms a functional constituent of the risk management function in collaboration with the Bank Credit Committee and the Asset & Liability Management Committee. The Division carries out the works towards the legal and internal capital adequacy in accordance with the Basel framework and consistent with international best practices, in addition to working towards developing and validating risk measurement methodologies and optimizing the capital adequacy management process.



**Prof. Dr. Turkey Berksoy**  
Member of the Board and Audit Committee



**Füsün Tümsavaş**  
Vice Chairman of the Board and Chairman of the Audit Committee

## Explanations on Financial Condition, Profitability and Solvency

In 2016, the total assets of İsbank grew by 13.0% on an annual basis and reached TL 311.6 billion at the end of the year.

The major contribution to the asset growth was made by total loans that increased by 14.7% in the twelve months to end-2016 and reached TL 203.1 billion. In the same period, TL loans increased by 8.1% year-to-year, while FC loans enlarged by 26.5%, owing also to the added effect of increased exchange rates. The rise in FC loans is 3.8% when adjusted for the change in the currency.

As at year-end 2016, loans and securities portfolio accounted for 65.2% and 16.5% of total assets, respectively.

Maintaining its effective risk management and problem-free growth policy in its credit allocation processes, İsbank successfully kept the ratio of non-performing loans to total loans below the sector's average, as was the case in previous years, and the NPL ratio was registered as 2.4% at the end of 2016. The ratio of special provisions to NPL was 77.5%.

İsbank's total deposits grew by 15.3% in 2016 and reached TL 177.4 billion. While TL deposits expanded by 21.2%, FC deposits enlarged by 10.0%. When adjusted for the change in the currency, FC deposits decreased by 9.7% on a year-to-year basis. Having gone up by 18.8% to TL 62.5 billion during 2016, TL savings deposits got 35.2% share out of total deposits. On the other hand, the share of demand deposits in total deposits, was 24.6% as at year-end 2016.

Accounting for 56.9% of total liabilities as at year-end 2016, deposits continued to be the main funding resource of İsbank. Additionally, İsbank made use of non-deposit resources, as well, within the frame of its policies aimed at diversifying its funding sources and controlling its costs. Made up of borrowings, repo transactions, subordinated loans and issued securities, non-deposit resources increased their share within total liabilities to 25.3% as at year-end 2016.

With its shareholders' equity that reached TL 36 billion, which rose by 12.3% year-to-year, and a capital adequacy ratio of 15.2%, İsbank preserved its solid capitalization also in 2016.

As a result of the rise in net interest margin and the enlargement in interest-earning assets volume, İsbank's net interest income increased by 20.6% in 2016. During the same period, the Bank increased its net fees and commissions income by 18.9%. The Bank's total operating expenses grew by 2.8% year-to-year.

Having booked a net profit worth TL 4.7 billion in 2016, İsbank registered an average return on equity of 13.7% and an average return on assets of 1.6%.

# Information on Risk Management Policies Applied Per Risk Types

Bank risk policies and procedures constitute the internal rules and principles which are approved and enforced by the Board considering Risk Management Division suggestions and executed by the senior management.

These policies that have been put into effect in accordance with international standards, stipulate general standards regarding the organization and scope of risk management function, risk measurement methods, roles and responsibilities of the risk management group, risk limit setting methodology, rules governing the breach of limits and confirmations that have to be given in various situations.

As a result of the Bank's usual activities, credit risk is considered as the most important financial risk factor the Bank is exposed to. Additionally, liquidity risk which can be triggered by the US Central Bank's (FED) structural interest rate hike process that has already started by the end of 2016 and structural interest rate risk caused by maturity mismatch between assets and liabilities are other financial risks that are regarded as prominent.

Apart from the financial risks mentioned above, the most important non-financial risk of the Bank appears to be business environment risk. Geopolitical risks arising from political instability in nearby geography of Turkey and competition in local market are the main drivers of business environment risk. Additionally, another important source of non-financial risks that the Bank is exposed to is related to IT processes. The above mentioned assessments are presented in the financial statements footnotes.

To ensure the conformity of the Bank's risk appetite with business plan and prevailing market environment, risk limits set by the Board of Directors and defined in the Bank's risk appetite framework are monitored. In this context, breaches in market, liquidity, structural interest rate and credit risk limits are analyzed by Risk Management Division and reported to the Audit Committee.

## Capital Adequacy Policy

Capital Adequacy Policy defines the level of capital, on consolidated and unconsolidated basis, that the Bank must hold against potential losses arising from financial risks associated with on and off-balance sheet items in addition to non-financial risks caused by the Bank's operations; and establishes the principles for maintaining and monitoring the minimum capital levels determined in accordance with the legal regulations and the Internal Capital Adequacy Assessment Process. Risk management policies form an integral part of the Capital Adequacy Policy.

## Credit Risk Policy

Credit risk is defined as any situation where the counterparty obligation will not or cannot be fulfilled partially or fully on maturity as affirmed in the agreement. Credit risk policy sets the framework for credit risk management, control and monitoring, roles and responsibilities and credit risk limits.

İşbank maintains identification, measurement and management of credit risk across all products and activities. The Board reviews credit risk policies and strategies annually at minimum. Senior management is responsible for the execution of credit risk policies.

The findings of independent review of loans and credit risk are reported to the Board and the senior management regularly. Monitoring credit risk includes parameters such as maturity, industry, collateral, geography, currency, loan type, and credit risk ratings as a whole, in addition to the assessments on the obligor and the facility.

In managing credit risk, İşbank implements internal risk limits specified by the Board of Directors that restrict the maximum credit risk based on parameters such as risk groups and sectors in addition to the credit risk limits that are mandated by legal regulations. These internal limits are determined in a way that does not lead to risk concentrations.

Breaching risk limits until the regulatory limits are treated as "exceptional procedure". The authorization for exceptional procedure resides with the Board of Directors. The results of controls and assessments related to risk limit breaches are presented to senior management and the Board of Directors by Internal Audit and Risk Management Functions.

İşbank employs internal credit risk rating systems that are developed to service the needs for credit management, credit granting decisions, credit process audits and credit provision calculations. Internal audit and risk management functions regularly assess and adjust the internal credit risk rating systems according to their compatibility with the structure, size and complexity of the Bank's operations. If diverse circumstances required, necessary adjustments and/or modifications are made to the system. Internal credit risk rating systems are assessed by the Risk Committee and approved by the Board of Directors.

## Corporate Governance

# Information on Risk Management Policies Applied Per Risk Types

### Asset and Liability Management Risk Policy

Asset and liability management risk is defined as; loss risk caused by Bank's failure to effectively manage all financial risks arising from the Bank's assets, liabilities and off-balance sheet transactions. Market risk of trading book, structural interest rate risk of banking book and liquidity risk, which the Bank is exposed to due to all of its assets and liabilities are all within the scope of asset and liability management risk.

All principles and procedures related to constitution and management of Bank's asset-liability structure and Bank's risk appetite is established by the Board of Directors. Ensuring asset and liability management risk being within, the levels imposed by legal legislation and allocated internal risk limits is the first priority. Within the Bank's risk appetite framework risk tolerance levels which aim to put a cap on the amount of risk undertaken by the Bank are determined by Board of Directors for each risk type on both bank-only and consolidated basis. In this process, liquidity, target income level and general expectations about the risk factors are taken into consideration.

Board of Directors and Audit Committee are obliged to track that Bank's capital is used optimally. For this purpose they have to keep risk limits under control and ensure necessary actions being taken.

Asset-Liability Management Committee is responsible for governance of asset and liability management risk in accordance with the risk appetite framework and risk limits determined by Board of Directors and within the principles and procedures expressed in this policy.

Measuring asset and liability management risk, reporting the results and monitoring the compliance with the risk limits are the responsibilities of Risk Management Division. The course of the risk taken is reviewed under different scenarios. Measurement results are tested in terms of reliability and integrity. Asset and liability management risk is reported to Risk Committee and reported to the Board of Directors through Audit Committee.

Compliance with risk limits is closely and continuously monitored by Risk Management Division, Asset-Liability Management Committee and related business units. In the event of a breach in the risk limits, the breach and its reasons are instantly reported to Board of Directors through Audit Committee. Course of action needed to be taken in order to eliminate the breach is determined by the Board.

Asset and liability management processes and compliance with the policy rules are audited by internal audit system. The principles regarding the audit process, audit reports and fulfillment of action plans to eliminate the errors and gaps determined by internal audit are established by the Board of Directors.

### Operational Risk Policy

Operational risk is defined as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". Risk Management Division is responsible for the risk management activity on this particular risk. Operational risk management activities comprise defining, measuring, analyzing, monitoring and reporting of operational risks, following up the new techniques on management of operational risks besides regulatory and internal reporting. The fundamental principles and procedures of risk management are determined in Operational Risk Policy.

Categorization of inherited operational risks within the activities and processes is made possible by the Risk Catalogue. It serves as the basic document to define and classify the risks and is subject to alteration as conditions change. Risk Catalogue is modified in line with the improving risk management practices and changing regulations.

The methodology employed to identify operational risks is "self-assessment". This methodology requires staff with roles and responsibilities in a particular activity to get involved in the risk and control assessment process of that activity. Operational risk management process combines both qualitative and quantitative approaches in measurement and assessment. The measurement process uses data obtained from "impact - likelihood analysis", "loss database" and "key risk indicators".

All operational risks inherited in the banking processes and information systems, risk levels of new products and processes, operational losses incurred by the Bank are monitored continuously, risk assessments are updated regularly and reported to the Risk Committee and the Board in a timely manner.

Employees have the understanding of the Bank's objective to attain a working environment aiming to reduce the probability of loss, considering that the entire internal rules and procedures, led by operational risk policy, and act sensitively to the inherited operational risks and controls.

## Reputational Risk Policy

Reputational risk is defined as loss of trust to the Bank or reputation impairment as a result of non-compliance with existing legal regulations or negative view of parties such as current or potential customers, partners, opponents and supervisory authorities and related studies are conducted by Risk Management Division. Reputational Risk Policy determines principles and procedures for definition, evaluation, control, monitoring, reporting and management activities of reputational risk sources.

Reputational risk sources are evaluated both individually and totally; appropriate systems and controls are established to manage risky elements efficiently. Risk Management Division is responsible for reporting reputational risk evaluations periodically to Risk Committee, Audit Committee and the Board of Directors. All the employees execute their functions with the responsibility of preserving the reputation of the Bank.

## Consolidated Risk Policies

Compliance with risk management principles related to the Bank's subsidiaries are monitored according to Bank's Consolidated Risk Policies. Through Consolidated Risk Policies, subsidiaries identify their specific risk management policies which are approved by their boards that form the framework of their risk management systems and processes.

## Information Systems Management Policy

The purpose of Information Systems Management Policy is to determine the principles which will constitute a basis for the management of information systems that the Bank uses to fulfill its activities and the procedures in order to define, measure, control, monitor, report and manage the risks derived from using information technologies. With the Policy, the information technologies which is an important element for sustaining Bank activities is intended to be managed effectively as information systems management, being handled as a part of corporate governance practices. On the management of Bank's information systems and all the elements relating to those systems articles of this Policy are applied.

Risks derived from information technologies are basically assessed within the scope of Bank's operational risk management. It is essential that those risks which could be seen as multipliers of the other risks derived from activities of the Bank are measured, closely monitored and controlled within the framework of Bank's integrated risk management.

## Corporate Governance

İsbank Credit Ratings<sup>(\*)</sup>

	Rating	Outlook <sup>(**)</sup>
<b>MOODY'S</b>		
Long-term Foreign Currency Deposit	Ba2	Stable
Long-term Local Currency Deposit	Ba1	Stable
Long-term Foreign Currency Senior Debt	Ba1	Stable
Short-term Foreign Currency Deposit	Not-Prime	-
Short-term Local Currency Deposit	Not-Prime	-
<b>FITCH RATINGS</b>		
Long-term Foreign Currency Issuer Default Rating	BB+	Stable
Long-term Local Currency Issuer Default Rating	BB+	Stable
Short-term Foreign Currency Issuer Default Rating	B	-
Short-term Local Currency Issuer Default Rating	B	-
National Long-term Rating	AA+ (tur)	Stable
Viability Rating	bb+	-
Support Rating	4	-
<b>STANDARD &amp; POOR'S</b>		
Long-term Counterparty Credit Rating	BB	Negative
Short-term Counterparty Credit Rating	B	-
Long-term National Scale Rating	trAA-	-
Short-term National Scale Rating	trA-1	-

The dates below given are on which the Bank's credit ratings/outlook was last updated:

Moody's: 26 September 2016, Fitch Ratings: 2 February 2017, Standard & Poor's: 31 January 2017

<sup>(\*)</sup> As of March 8, 2017

<sup>(\*\*)</sup> Outlook:

"Stable" indicates that the current rating will not be changed in the short term; "positive" indicates that the current rating is very likely to be upgraded and "negative" indicates that the current rating is very likely to be downgraded.

# Unconsolidated Financial Statements as at and for the Year Ended 31 December 2016 with Independent Audit's Report Thereon

(Convenience Translation of Unconsolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)

## Financial Information and Risk Management



Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No: 29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

## Independent Auditor's Report

Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish to English (See Note I in Section Three)

To the Board of Directors of Türkiye İş Bankası Anonim Şirketi;

## Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated financial statements of Türkiye İş Bankası Anonim Şirketi ("the Bank") which comprise the unconsolidated statement of financial position as at 31 December 2016 and the unconsolidated statement of income, unconsolidated statement of income and expense items under shareholders' equity, unconsolidated statement of changes in shareholders' equity, unconsolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations, and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with the "Regulation on Independent Audit of the Banks" published in the Official Gazette No.29314 dated 2 April 2015 by BRSA and Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the unconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Basis for Qualified Opinion

As described in Notes to the unconsolidated financial statements Section V-II Note i-5, the accompanying unconsolidated financial statements as at 31 December 2016 includes a general provision at the amount of TL 800,000 thousands which had been recognized as expense in the prior periods, which is provided by the Bank management for the possible effects of the negative circumstances which may arise in the economy or market conditions.

## Qualified Opinion

In our opinion, except for the effect of the matter described in the basis for qualified opinion paragraph above, the unconsolidated financial statements present fairly, in all material respects, the financial position of Türkiye İş Bankası AŞ as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

## Report on Other Legal and Regulatory Requirements

- 1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No.6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2016 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.
- 2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of KPMG International Cooperative

  
Erdal Tıkmak  
Partner, SMMM  
2 February 2017  
İstanbul, Turkey



# Türkiye İş Bankası A.Ş.

## The Unconsolidated Financial Report

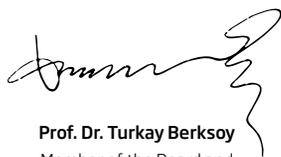
### As at and for the Year Ended 31 December 2016

Headquarters Address: İş Kuleleri, 34330, Levent/İstanbul  
Telephone: 0212 316 00 00  
Fax: 0212 316 09 00  
Web site: www.isbank.com.tr  
E-mail: musteriliskileri@isbank.com.tr

The unconsolidated financial report as at and for the year ended prepared in accordance with the communiqué of "Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks" as regulated by Banking Regulation and Supervision Agency, comprises the following sections:

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS
- EXPLANATIONS ON THE ACCOUNTING POLICIES
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT
- DISCLOSURES AND FOOTNOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITORS' REPORT

The unconsolidated financial statements and related disclosures and footnotes in this report are prepared in accordance with the Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks, Banking Regulation and Supervision Agency (BRSA) regulations, Turkish Accounting Standards, Turkish Financial Reporting Standards and the related statements and guidance and in compliance with the financial records of our Bank. Unless otherwise stated, the accompanying unconsolidated financial report is presented in thousands of Turkish Lira (TL), and has been subjected to independent audit and presented as the attached.



**Prof. Dr. Turky Berksoy**  
Member of the Board and  
the Audit Committee



**Füsün Tümsavaş**  
Deputy Chairman of the Board of Directors and  
Chairman of the Audit Committee



**H. Ersin Özince**  
Chairman of the Board of Directors



**Ali Tolga Ünal**  
Head of Financial Management Division



**Mahmut Magemizoğlu**  
Deputy Chief Executive  
In Charge of Financial Reporting



**Adnan Bali**  
Chief Executive Officer

The authorized contact person for questions on this financial report:

Name - Surname/Title : Süleyman H. Özcan/Head of Investor Relations Division  
Phone No : +90 212 316 16 02  
Fax No : +90 212 316 08 40  
E-mail : Suleyman.Ozcan@isbank.com.tr  
investorrelations@isbank.com.tr  
Website : www.isbank.com.tr

## Financial Information and Risk Management

Page

**SECTION I****General Information about the Bank**

I.	Explanations on the Establishment Date and Initial Status of the Bank, History Including the Changes in the Former Status	96
II.	Explanations on the Capital Structure, Shareholders who Directly or Indirectly, Solely or Jointly Undertake the Management and Control of the Bank, any Changes in the Period, and Information on the Bank's Risk Group	96
III.	Explanations on the Chairman's, Directors', Auditors', Chief Executive Officer's and Deputy Chief Executives' Shares, if any, and the Areas of their Responsibility at the Bank	96
IV.	Information on the Bank's Qualified Shareholders	97
V.	Summary Information on the Bank's Functions and Business Lines	97
VI.	Existing or Potential, Actual or Legal Obstacles on the Transfer of Shareholders' Equity Between the Bank and its Subsidiaries or the Reimbursement of Liabilities	97
VII.	Written Policies on Assessment of Ensuring Compliance on Market Discipline, Disclosure Obligations, Frequency and Accuracy of Related Disclosures	97

**SECTION II****Unconsolidated Financial Statements**

I.	Balance Sheet (Statement of Financial Position) - Assets	98
II.	Balance Sheet (Statement of Financial Position) - Liabilities	99
III.	Statement of Off-Balance Sheet Items	100
IV.	Statement of Income	102
V.	Statement of Income and Expense Items Accounted under Shareholders' Equity	103
VI.	Statement of Changes in the Shareholders' Equity	104
VII.	Statement of Cash Flows	106
VIII.	Statement of Profit Distribution Table	107

**SECTION III****Explanations on Accounting Policies**

I.	Basis of Presentation	108
II.	Strategy for Use of Financial Instruments and Foreign Currency Transactions	108
III.	Associates and Subsidiaries	108
IV.	Forward and Option Contracts and Derivatives Instruments	109
V.	Interest Income and Expenses	109
VI.	Fees and Commission Income and Expenses	109
VII.	Financial Assets	109
VIII.	Impairment of Financial Assets	110
IX.	Offsetting Financial Instruments	111
X.	Sale and Repurchase Agreements and Securities Lending Transactions	111
XI.	Non-current Assets Held for Sale and Discontinued Operations and Related Liabilities	111
XII.	Goodwill and Other Intangible Assets	111
XIII.	Tangible Assets	111
XIV.	Leasing Transactions	112
XV.	Provisions and Contingent Liabilities	112
XVI.	Contingent Assets	112
XVII.	Liabilities Regarding Employee Benefits	113
XVIII.	Taxation	114
XIX.	Borrowings	115
XX.	Equity Shares and Issuance of Equity Securities	115
XXI.	Bank Acceptances and Bills of Guarantee	115
XXII.	Government Incentives	115
XXIII.	Segment Reporting	115
XXIV.	Other Disclosures	115

	Page
<b>SECTION IV</b>	
<b>Information on the Financial Position of the Bank and Risk Management of the Bank</b>	
I. Explanations on Shareholders' Equity:	116
II. Explanations on Credit Risk	123
III. Explanations on Currency Risk	132
IV. Explanations on Interest Rate Risk	134
V. Explanations on Equity Shares Risk Arising from Banking Book	137
VI. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio	138
VII. Explanations on Leverage Ratio	142
VIII. Explanations on Other Price Risks	143
IX. Explanations on Presentation of Assets and Liabilities at Fair Value	143
X. Explanations on Transactions Carried Out on Behalf of Third Parties and Fiduciary Transactions	144
XI. Explanations on Risk Management Objectives and Policies	144
XII. Explanations on Segment Reporting	154
<b>SECTION V</b>	
<b>Disclosures and Footnotes on the Unconsolidated Financial Statements</b>	
I. Disclosures and Footnotes on Assets	157
II. Disclosures and Footnotes on Liabilities	168
III. Disclosures and Footnotes on Off-Balance Sheet Items	174
IV. Disclosures and Footnotes on Statement of Income	175
V. Disclosures and Footnotes on Statement of Changes in Shareholders' Equity	179
VI. Disclosures and Footnotes on Statement of Cash Flows	179
VII. Disclosures and Footnotes on The Bank's Risk Group	180
VIII. Disclosures on the Bank's Domestic, Foreign, Off-Shore Branches or Associates and Foreign Representative Offices	181
IX. Subsequent Events	181
<b>SECTION VI</b>	
<b>Other Explanations</b>	
I. Explanations on the Bank's Credit Ratings:	182
II. Explanations on Special Purpose Audit and Public Audit	182
<b>SECTION VII</b>	
<b>Independent Auditors' Report</b>	
I. Explanations on the Independent Auditors' Report	182
II. Explanations and Footnotes of the Independent Auditors	182

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## SECTION ONE: GENERAL INFORMATION ABOUT THE BANK

## I. Explanations on the Establishment Date and Initial Status of the Bank, History Including the Changes in the Former Status

TÜRKİYE İŞ BANKASI A.Ş. ("the Bank") was established on 26 August 1924 to operate in all kinds of banking activities and to initiate and/or participate in all kinds of financial and industrial sector undertakings when necessary. There is no change in the Bank's status since its establishment.

## II. Explanations on the Capital Structure, Shareholders who Directly or Indirectly, Solely or Jointly Undertake the Management and Control of the Bank, any Changes in the Period, and Information on the Bank's Risk Group

As at 31 December 2016, 40.15% of the Bank's shares are owned by T. İş Bankası A.Ş. Supplementary Pension Fund (Fund), 28.09% are owned by the Republican People's Party- CHP (Atatürk's shares) and 31.76% are on free float (31 December 2015: Fund 40.15%, CHP 28.09%, Free float 31.76%).

## III. Explanations on the Chairman's, Directors', Auditors', Chief Executive Officer's and Deputy Chief Executives' Shares, if any, and the Areas of their Responsibility at the Bank

## Board of Directors:

Name and Surname	Areas of Responsibility
H. Ersin Özince	Chairman of the Board and the Remuneration Committee
Füsün Tümsavaş	Deputy Chairman, Audit Committee, TRNC Internal Systems Committee and the Risk Committee, Chairman of the Corporate Governance Committee, Member of the Credit Committee
Adnan Bali	Chief Executive Officer and Director, Chairman of the Credit Committee, Member of the Risk Committee, Chairman of the Executive Committee, Chairman of the Human Resources Committee
Hasan Koçhan	Director, Member of the Credit Committee
Mustafa Kıcaloğlu	Director
Hüseyin Yalçın	Director
Murat Vulkan	Director
Prof. Dr. Turkey Berksoy	Director, Audit Committee, TRNC Internal Systems Committee, Remuneration Committee and Corporate Governance Committee, Alternate Member of the Credit Committee
Kemal Meral	Director
Ulaş Moğultay	Director, Member of Corporate Social Responsibility Committee
Feray Demir	Director, Member of the Corporate Social Responsibility Committee, Alternate Member of the Credit Committee

## Chief Executive Officer and Deputy Chief Executives:

Name and Surname	Areas of Responsibility
Adnan Bali	Chief Executive Officer and Director, Chairman of the Credit Committee, Member of the Risk Committee, Chairman of the Executive Committee, Chairman of the Human Resources Committee
Mahmut Magemizoğlu	I. Deputy Chief Executive, Financial Management, Strategy and Corporate Performance Management, Investor Relations, Managerial Reporting and Internal Accounting, Subsidiaries, Member of the Risk Committee
Hakan Aran	Information Technology Management, Digital Banking Operations, Data Management
Levent Korba	Banking Operations, Support Services and Purchasing, Foreign Trade and Commercial Loan Operations, Internal Operations Management, Construction and Real Estate Management, Branch Network Development
Ertuğrul Bozgedik	Corporate Loans, SME Loans, Commercial Loans and Consumer Loans Underwriting, Loans Portfolio Management, Member of the Risk Committee
Yalçın Sezen	Consumer Loans, Card Payment Systems, Retail Banking Marketing, Sales and Product Management, Retail Loans and Card Operations, Digital Banking, Private Banking Marketing and Sale Management, Member of the Corporate Social Responsibility Committee
Senar Akkuş	Treasury Management, Corporate Communication Management, Capital Markets, Corporate Social Responsibility Committee Member of the Risk Committee
Yılmaz Ertürk	Economic Research, International Financial Institutions
Ergün Yorulmaz	Commercial Banking, Retail Banking and General Legal Counsellorship, Financial Analysis, Commercial and Corporate Loans and Retail Loans Monitoring and Recovery Management
Murat Bilgiç	Commercial Banking Marketing, Sales and Product, SME and Business Banking Sales, Corporate Banking Marketing and Sales, Free Zone Branches, Cross-Border Banking, Foreign Subsidiaries, Branches and Representatives
Nevzat Burak Seyrek	Enterprise Architecture, Human Resources and Talent Management, Coordination of Consumer Relations Officer

The Bank's shares attributable to the Directors and members of the Audit Committee, to the CEO and the Deputy Chief Executives are of minor importance.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### IV. Information on the Bank's Qualified Shareholders

Name Surname/Company	Shares	Ownership	Paid-in Capital	Unpaid Capital
T. İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı (İşbank Members' Supplementary Pension Fund)	1,806,553	40.15%	1,806,553	
Cumhuriyet Halk Partisi - Republican People's Party - (Atatürk's Shares)	1,264,142	28.09%	1,264,142	

#### V. Summary Information on the Bank's Functions and Business Lines

In line with the relevant legislation and principles stated in the Articles of Incorporation of the Bank, the Bank's activities include operating in retail, commercial, corporate and private banking, foreign currency and money market operations, marketable securities operations, international banking services and other banking operations, as well as initiating or participating in all kinds of financial and industrial sector corporations as may be required.

#### VI. Existing or Potential, Actual or Legal Obstacles on the Transfer of Shareholders' Equity Between the Bank and its Subsidiaries or the Reimbursement of Liabilities

None.

#### VII. Written Policies on Assessment of Ensuring Compliance on Market Discipline, Disclosure Obligations, Frequency and Accuracy of Related Disclosures

The Bank has written policies on assessment of ensuring compliance on market discipline, disclosure obligations, frequency and accuracy of related disclosures. The mentioned policies which are agreed by Board of Directors' can be obtained from the Bank's website.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Unconsolidated Financial Statements  
(Statement of Financial Position)

ASSETS	Footnotes	THOUSAND TL					
		CURRENT PERIOD (31/12/2016)			PRIOR PERIOD (31/12/2015)		
		TL	FC	Total	TL	FC	Total
<b>I. CASH AND BALANCES WITH THE CENTRAL BANK</b>	V-I-a	6,116,010	26,310,618	32,426,628	3,288,379	28,364,146	31,652,525
<b>II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)</b>	V-I-b-c	641,882	1,943,085	2,584,967	444,401	1,147,897	1,592,298
2.1 Financial Assets Held for Trading		641,882	1,943,085	2,584,967	444,401	1,147,897	1,592,298
2.1.1 Government Debt Securities		454,858	6,552	461,410	262,528	9,064	271,592
2.1.2 Equity Securities		163,106	-	163,106	56,255	-	56,255
2.1.3 Derivative Financial Assets Held for Trading		22,916	1,936,533	1,959,449	124,592	1,138,833	1,263,425
2.1.4 Other Marketable Securities		1,002	-	1,002	1,026	-	1,026
2.2 Financial Assets at Fair Value Through Profit and Loss		-	-	-	-	-	-
2.2.1 Government Debt Securities		-	-	-	-	-	-
2.2.2 Equity Securities		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other Marketable Securities		-	-	-	-	-	-
<b>III. BANKS</b>	V-I-d	182,982	2,046,098	2,229,080	87,888	1,429,613	1,517,501
<b>IV. MONEY MARKET PLACEMENTS</b>		-	-	-	-	-	-
4.1 Interbank Money Market Placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange Money Market Placements		-	-	-	-	-	-
4.3 Receivables from Reverse Repurchase Agreements		-	-	-	-	-	-
<b>V. FINANCIAL ASSETS AVAILABLE-FOR-SALE (Net)</b>	V-I-e	33,869,227	11,457,683	45,326,910	31,072,239	9,788,121	40,860,360
5.1 Equity Securities		34,172	91,104	125,276	34,172	256,380	290,552
5.2 Government Debt Securities		33,825,053	10,178,627	44,003,680	31,028,365	8,519,904	39,548,269
5.3 Other Marketable Securities		10,002	1,187,952	1,197,954	9,702	1,011,837	1,021,539
<b>VI. LOANS AND RECEIVABLES</b>	V-I-f	123,444,445	80,812,798	204,257,243	114,031,662	63,902,094	177,933,756
6.1 Loans and Receivables		122,340,282	80,803,563	203,143,845	113,137,177	63,899,443	177,036,620
6.1.1 Loans to the Bank's Risk Group		513,497	397,581	911,078	617,442	613,319	1,230,761
6.1.2 Government Debt Securities		-	-	-	-	-	-
6.1.3 Other		121,826,785	80,405,982	202,232,767	112,519,735	63,286,124	175,805,859
6.2 Non-Performing Loans		4,926,675	17,680	4,944,355	3,597,737	5,952	3,603,689
6.3 Specific Provisions (-)		3,822,512	8,445	3,830,957	2,703,252	3,301	2,706,553
<b>VII. FACTORING RECEIVABLES</b>		-	-	-	-	-	-
<b>VIII. HELD TO MATURITY INVESTMENTS (Net)</b>	V-I-g	5,163,632	193,708	5,357,340	3,476,526	115,105	3,591,631
8.1 Government Debt Securities		5,049,923	-	5,049,923	3,414,877	-	3,414,877
8.2 Other Marketable Securities		113,709	193,708	307,417	61,649	115,105	176,754
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	V-I-h	128,246	-	128,246	128,246	-	128,246
9.1 Associates Accounted for Using the Equity Method		-	-	-	-	-	-
9.2 Unconsolidated Associates		128,246	-	128,246	128,246	-	128,246
9.2.1 Financial Investments		124,575	-	124,575	124,575	-	124,575
9.2.2 Non-Financial Investments		3,671	-	3,671	3,671	-	3,671
<b>X. INVESTMENTS IN SUBSIDIARIES (Net)</b>	V-I-i	9,757,612	556,539	10,314,151	8,708,812	556,539	9,265,351
10.1 Unconsolidated Financial Subsidiaries		4,048,139	556,539	4,604,678	4,045,020	556,539	4,601,559
10.2 Unconsolidated Non-Financial Subsidiaries		5,709,473	-	5,709,473	4,663,792	-	4,663,792
<b>XI. JOINTLY CONTROLLED ENTITIES (JOINT VENTURES) (Net)</b>	V-I-j	-	-	-	-	-	-
11.1 Jointly Controlled Entities Accounted for Using the Equity Method		-	-	-	-	-	-
11.2 Unconsolidated Jointly Controlled Entities		-	-	-	-	-	-
11.2.1 Jointly Controlled Financial Entities		-	-	-	-	-	-
11.2.2 Jointly Controlled Non-Financial Entities		-	-	-	-	-	-
<b>XII. LEASE RECEIVABLES</b>	V-I-k	-	-	-	-	-	-
12.1 Finance Lease Receivables		-	-	-	-	-	-
12.2 Operating Lease Receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned Income (-)		-	-	-	-	-	-
<b>XIII. DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING</b>	V-I-l	-	-	-	-	-	-
13.1 Fair Value Hedges		-	-	-	-	-	-
13.2 Cash Flow Hedges		-	-	-	-	-	-
13.3 Net Foreign Investment Hedges		-	-	-	-	-	-
<b>XIV. TANGIBLE ASSETS (Net)</b>	V-I-m	4,375,485	8,867	4,384,352	4,340,202	10,077	4,350,279
<b>XV. INTANGIBLE ASSETS (Net)</b>	V-I-n	373,855	337	374,192	353,554	354	353,908
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		373,855	337	374,192	353,554	354	353,908
<b>XVI. INVESTMENT PROPERTY (Net)</b>	V-I-o	-	-	-	-	-	-
<b>XVII. TAX ASSETS</b>	V-I-p	403,647	112,252	515,899	474,380	330	474,710
17.1 Current Tax Assets		-	-	-	-	-	-
17.2 Deferred Tax Assets		403,647	112,252	515,899	474,380	330	474,710
<b>XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>	V-I-r	79,931	-	79,931	42,929	-	42,929
18.1 Held for Sale		79,931	-	79,931	42,929	-	42,929
18.2 Discontinued Operations		-	-	-	-	-	-
<b>XIX. OTHER ASSETS</b>	V-I-s	2,541,195	1,105,779	3,646,974	2,289,970	1,664,120	3,954,090
<b>TOTAL ASSETS</b>		<b>187,078,149</b>	<b>124,547,764</b>	<b>311,625,913</b>	<b>168,739,188</b>	<b>106,978,396</b>	<b>275,717,584</b>

# Türkiye İş Bankası A.Ş.

## Unconsolidated Financial Statements

### (Statement of Financial Position)

		THOUSAND TL					
		CURRENT PERIOD (31/12/2016)			PRIOR PERIOD (31/12/2015)		
LIABILITIES	Footnotes	TL	FC	Total	TL	FC	Total
<b>I. DEPOSITS</b>	V-II-a	88,764,566	88,595,410	177,359,976	73,230,005	80,572,421	153,802,426
1.1 Deposits from the Bank's Risk Group		2,959,486	3,323,315	6,282,801	2,253,576	3,665,080	5,918,656
1.2 Other		85,805,080	85,272,095	171,077,175	70,976,429	76,907,341	147,883,770
<b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>	V-II-b	376,769	422,814	799,583	304,363	623,611	927,974
<b>III. FUNDS BORROWED</b>	V-II-c	1,182,087	29,702,610	30,884,697	2,651,943	25,756,556	28,408,499
<b>IV. MONEY MARKET FUNDS</b>		17,372,350	3,220,485	20,592,835	17,046,938	3,042,209	20,089,147
4.1 Interbank Money Market Funds		3,251,535	-	3,251,535	-	-	-
4.2 Istanbul Stock Exchange Money Market Funds		-	-	-	-	-	-
4.3 Funds Provided Under Repurchase Agreements		14,120,815	3,220,485	17,341,300	17,046,938	3,042,209	20,089,147
<b>V. MARKETABLE SECURITIES ISSUED (Net)</b>	V-II-d	5,182,378	17,282,823	22,465,201	6,325,685	13,435,444	19,761,129
5.1 Bills		4,350,211	206,424	4,556,635	5,551,796	1,927,381	7,479,177
5.2 Asset-backed Securities		-	-	-	-	-	-
5.3 Bonds		832,167	17,076,399	17,908,566	773,889	11,508,063	12,281,952
<b>VI. FUNDS</b>		-	-	-	-	-	-
6.1 Borrower funds		-	-	-	-	-	-
6.2 Other		-	-	-	-	-	-
<b>VII. MISCELLANEOUS PAYABLES</b>		7,599,323	1,003,183	8,602,506	6,303,311	547,070	6,850,381
<b>VIII. OTHER LIABILITIES</b>	V-II-f	1,279,915	831,620	2,111,535	1,481,694	635,411	2,117,105
<b>IX. FACTORING PAYABLES</b>		-	-	-	-	-	-
<b>X. LEASE PAYABLES (Net)</b>	V-II-g	-	-	-	-	-	-
10.1 Finance Lease Payables		-	-	-	-	-	-
10.2 Operating Lease Payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred Financial Lease Expenses (-)		-	-	-	-	-	-
<b>XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT</b>	V-II-h	-	-	-	-	-	-
11.1 Fair Value Hedges		-	-	-	-	-	-
11.2 Cash Flow Hedges		-	-	-	-	-	-
11.3 Net Foreign Investment Hedges		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	V-II-i	7,493,767	50,842	7,544,609	7,064,150	29,596	7,093,746
12.1 General Loan Loss Provisions		3,065,693	8,168	3,073,861	2,842,117	9,712	2,851,829
12.2 Provision for Restructuring		-	-	-	-	-	-
12.3 Reserves for Employee Benefits		629,147	-	629,147	553,067	-	553,067
12.4 Insurance Technical Reserves (Net)		-	-	-	-	-	-
12.5 Other Provisions		3,798,927	42,674	3,841,601	3,668,966	19,884	3,688,850
<b>XIII. TAX LIABILITIES</b>	V-II-j	360,140	13,834	373,974	574,023	11,031	585,054
13.1 Current Tax Liabilities		360,140	13,834	373,974	574,023	11,031	585,054
13.2 Deferred Tax Liabilities		-	-	-	-	-	-
<b>XIV. LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS</b>	V-II-k	-	-	-	-	-	-
14.1 Held for Sale		-	-	-	-	-	-
14.2 Discontinued Operations		-	-	-	-	-	-
<b>XV. SUBORDINATED DEBT</b>	V-II-l	-	4,930,016	4,930,016	-	4,047,133	4,047,133
<b>XVI. SHAREHOLDERS' EQUITY</b>	V-II-m	36,521,433	(560,452)	35,960,981	31,979,467	55,523	32,034,990
16.1 Paid-in Capital		4,500,000	-	4,500,000	4,500,000	-	4,500,000
16.2 Capital Reserves		7,461,306	(560,452)	6,900,854	6,879,271	55,523	6,934,794
16.2.1 Share premium		3,694	-	3,694	3,694	-	3,694
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Marketable Securities Value Increase Fund		3,586,675	(560,452)	3,026,223	2,982,574	55,523	3,038,097
16.2.4 Tangible Assets Revaluation Reserve		2,254,187	-	2,254,187	2,279,090	-	2,279,090
16.2.5 Intangible Assets Revaluation Reserve		-	-	-	-	-	-
16.2.6 Investment Property Revaluation Reserve		-	-	-	-	-	-
16.2.7 Bonus Shares Obtained from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		26,692	-	26,692	26,692	-	26,692
16.2.8 Hedging Reserves (Effective Portion)		-	-	-	-	-	-
16.2.9 Accumulated Revaluation Reserves on Assets Held for Sale and Discontinued Operations		-	-	-	-	-	-
16.2.10 Other Capital Reserves		1,590,058	-	1,590,058	1,587,221	-	1,587,221
16.3 Profit Reserves		19,825,929	-	19,825,929	17,507,958	-	17,507,958
16.3.1 Legal Reserves		2,714,077	-	2,714,077	2,483,718	-	2,483,718
16.3.2 Statutory Reserves		-	-	-	-	-	-
16.3.3 Extraordinary Reserves		17,057,785	-	17,057,785	15,018,038	-	15,018,038
16.3.4 Other Profit Reserves		54,067	-	54,067	6,202	-	6,202
16.4 Profit or Loss		4,734,198	-	4,734,198	3,092,238	-	3,092,238
16.4.1 Prior Years' Profit/Loss		32,992	-	32,992	9,547	-	9,547
16.4.2 Current Period Profit/Loss		4,701,206	-	4,701,206	3,082,691	-	3,082,691
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>166,132,728</b>	<b>145,493,185</b>	<b>311,625,913</b>	<b>146,961,579</b>	<b>128,756,005</b>	<b>275,717,584</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Unconsolidated Statement of  
Off-Balance Sheet Items

OFF-BALANCE SHEET ITEMS	Footnotes	THOUSAND TL					
		CURRENT PERIOD (31/12/2016)			PRIOR PERIOD (31/12/2015)		
		TL	FC	Total	TL	FC	Total
<b>A. OFF-BALANCE SHEET CONTINGENCIES AND COMMITMENTS (I+II+III)</b>	V-III	<b>88,760,045</b>	<b>142,036,214</b>	<b>230,796,259</b>	<b>91,672,574</b>	<b>127,335,881</b>	<b>219,008,455</b>
<b>I. GUARANTEES AND SURETYSHIPS</b>		<b>22,035,812</b>	<b>41,574,468</b>	<b>63,610,280</b>	<b>20,181,325</b>	<b>30,459,541</b>	<b>50,640,866</b>
1.1. Letters of Guarantee		22,025,461	25,814,312	47,839,773	20,167,536	18,372,484	38,540,020
1.1.1. Guarantees Subject to State Tender Law		851,339	2,676,089	3,527,428	804,216	2,524,859	3,329,075
1.1.2. Guarantees Given for Foreign Trade Operations		2,993,963	10,604,479	13,598,442	3,540,122	6,843,585	10,383,707
1.1.3. Other Letters of Guarantee		18,180,159	12,533,744	30,713,903	15,823,198	9,004,040	24,827,238
1.2. Bank Acceptances		-	2,562,294	2,562,294	4,821	931,732	936,553
1.2.1. Import Letters of Acceptance		-	103,857	103,857	-	116,817	116,817
1.2.2. Other Bank Acceptances		-	2,458,437	2,458,437	4,821	814,915	819,736
1.3. Letters of Credit		10,351	12,172,144	12,182,495	5,655	10,249,180	10,254,835
1.3.1. Documentary Letters of Credit		996	9,760,785	9,761,781	5,067	7,780,957	7,786,024
1.3.2. Other Letters of Credit		9,355	2,411,359	2,420,714	588	2,468,223	2,468,811
1.4. Prefinancing Given as Guarantee		-	-	-	-	-	-
1.5. Endorsements		-	-	-	-	-	-
1.5.1. Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2. Other Endorsements		-	-	-	-	-	-
1.6. Purchase Guarantees for Securities Issued		-	-	-	-	-	-
1.7. Factoring Guarantees		-	-	-	-	-	-
1.8. Other Guarantees		-	1,025,718	1,025,718	3,313	906,145	909,458
1.9. Other Suretyships		-	-	-	-	-	-
<b>II. COMMITMENTS</b>		<b>43,462,535</b>	<b>12,243,412</b>	<b>55,705,947</b>	<b>40,030,743</b>	<b>12,279,503</b>	<b>52,310,246</b>
2.1. Irrevocable Commitments		43,150,699	6,223,835	49,374,534	39,904,819	5,050,503	44,955,322
2.1.1. Forward Asset Purchase Commitments		941,805	3,388,136	4,329,941	152,889	3,008,812	3,161,701
2.1.2. Forward Deposit Purchase and Sale Commitments		-	-	-	-	-	-
2.1.3. Capital Commitment for Associates and Subsidiaries		-	92,050	92,050	-	-	-
2.1.4. Loan Granting Commitments		11,604,286	379,729	11,984,015	10,340,937	566,627	10,907,564
2.1.5. Securities Underwriting Commitments		-	-	-	-	-	-
2.1.6. Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7. Commitments for Cheque Payments		5,776,407	-	5,776,407	5,654,056	-	5,654,056
2.1.8. Tax and Fund Liabilities from Export Commitments		14,019	-	14,019	11,630	-	11,630
2.1.9. Commitments for Credit Card Expenditure Limits		22,217,478	-	22,217,478	21,219,999	-	21,219,999
2.1.10. Commitments for Credit Cards and Banking Services Promotions		100,048	-	100,048	100,470	-	100,470
2.1.11. Receivables from Short Sale Commitments		-	-	-	-	-	-
2.1.12. Payables for Short Sale Commitments		-	-	-	-	-	-
2.1.13. Other Irrevocable Commitments		2,496,656	2,363,920	4,860,576	2,424,838	1,475,064	3,899,902
2.2. Revocable Commitments		311,836	6,019,577	6,331,413	125,924	7,229,000	7,354,924
2.2.1. Revocable Loan Granting Commitments		311,836	6,019,577	6,331,413	125,924	7,229,000	7,354,924
2.2.2. Other Revocable Commitments		-	-	-	-	-	-
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>		<b>23,261,698</b>	<b>88,218,334</b>	<b>111,480,032</b>	<b>31,460,506</b>	<b>84,596,837</b>	<b>116,057,343</b>
3.1. Derivative Financial Instruments Held for Risk Management		-	-	-	-	-	-
3.1.1. Fair Value Hedges		-	-	-	-	-	-
3.1.2. Cash Flow Hedges		-	-	-	-	-	-
3.1.3. Net Foreign Investment Hedges		-	-	-	-	-	-
3.2. Derivative Financial Instruments Held for Trading		23,261,698	88,218,334	111,480,032	31,460,506	84,596,837	116,057,343
3.2.1. Forward Foreign Currency Buy/Sell Transactions		3,782,503	6,327,494	10,109,997	3,038,471	5,442,224	8,480,695
3.2.1.1. Forward Foreign Currency Buy Transactions		1,909,836	3,126,532	5,036,368	1,489,731	2,728,910	4,218,641
3.2.1.2. Forward Foreign Currency Sell Transactions		1,872,667	3,200,962	5,073,629	1,548,740	2,713,314	4,262,054
3.2.2. Currency and Interest Rate Swaps		17,991,097	76,062,639	94,053,736	24,345,220	67,352,684	91,697,904
3.2.2.1. Currency Swap Buy Transactions		3,159,504	26,123,645	29,283,149	2,813,441	27,689,453	30,502,894
3.2.2.2. Currency Swap Sell Transactions		14,406,005	12,331,420	26,737,425	18,758,355	8,743,921	27,502,276
3.2.2.3. Interest Rate Swap Buy Transactions		212,794	18,803,787	19,016,581	1,386,712	15,459,655	16,846,367
3.2.2.4. Interest Rate Swap Sell Transactions		212,794	18,803,787	19,016,581	1,386,712	15,459,655	16,846,367
3.2.3. Currency, Interest Rate and Security Options		1,488,098	3,423,049	4,911,147	3,660,920	6,723,743	10,384,663
3.2.3.1. Currency Call Options		929,087	862,560	1,791,647	2,756,108	1,818,458	4,574,566

# Türkiye İş Bankası A.Ş.

## Unconsolidated Statement of Off-Balance Sheet Items

OFF-BALANCE SHEET ITEMS		Footnotes	THOUSAND TL					
			CURRENT PERIOD (31/12/2016)			PRIOR PERIOD (31/12/2015)		
			TL	FC	Total	TL	FC	Total
3.2.3.2	Currency Put Options		559,011	1,213,831	1,772,842	904,812	3,327,425	4,232,237
3.2.3.3	Interest Rate Call Options		-	673,329	673,329	-	788,930	788,930
3.2.3.4	Interest Rate Put Options		-	673,329	673,329	-	788,930	788,930
3.2.3.5	Securities Call Options		-	-	-	-	-	-
3.2.3.6	Securities Put Options		-	-	-	-	-	-
3.2.4	Currency Futures		-	-	-	-	-	-
3.2.4.1	Currency Buy Futures		-	-	-	-	-	-
3.2.4.2	Currency Sell Futures		-	-	-	-	-	-
3.2.5	Interest Rate Futures		-	-	-	-	-	-
3.2.5.1	Interest Rate Buy Futures		-	-	-	-	-	-
3.2.5.2	Interest Rate Sell Futures		-	-	-	-	-	-
3.2.6	Other		-	2,405,152	2,405,152	415,895	5,078,186	5,494,081
<b>B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)</b>			<b>307,521,538</b>	<b>180,174,958</b>	<b>487,696,496</b>	<b>258,094,672</b>	<b>125,928,485</b>	<b>384,023,157</b>
<b>IV. ITEMS HELD IN CUSTODY</b>			<b>37,648,071</b>	<b>15,115,722</b>	<b>52,763,793</b>	<b>40,198,190</b>	<b>11,902,950</b>	<b>52,101,140</b>
4.1.	Customers' securities held		-	-	-	-	-	-
4.2.	Investment securities held in custody		19,058,327	1,149,961	20,208,288	22,737,209	155,981	22,893,190
4.3.	Cheques received for collection		15,330,755	4,600,171	19,930,926	14,051,240	3,940,719	17,991,959
4.4.	Commercial notes received for collection		2,846,217	7,644,852	10,491,069	2,982,759	6,499,384	9,482,143
4.5.	Other assets received for collection		6,409	496	6,905	13,560	2,638	16,198
4.6.	Assets received for public offering		2,541	-	2,541	2,541	-	2,541
4.7.	Other items under custody		403,822	1,720,242	2,124,064	410,881	1,304,228	1,715,109
4.8.	Custodians		-	-	-	-	-	-
<b>V. PLEDGED ITEMS</b>			<b>269,873,467</b>	<b>165,059,236</b>	<b>434,932,703</b>	<b>217,896,482</b>	<b>114,025,535</b>	<b>331,922,017</b>
5.1.	Marketable securities		13,860,403	-	13,860,403	14,221,630	-	14,221,630
5.2.	Guarantee notes		3,387,473	12,540,318	15,927,791	3,591,980	9,624,977	13,216,957
5.3.	Commodity		54,362,375	13,748,471	68,110,846	40,272,232	11,164,836	51,437,068
5.4.	Warranty		-	-	-	-	-	-
5.5.	Real Estates		183,196,831	111,436,297	294,633,128	150,183,032	74,639,709	224,822,741
5.6.	Other pledged items		15,066,385	27,334,150	42,400,535	9,627,608	18,596,013	28,223,621
5.7.	Pledged items-depository		-	-	-	-	-	-
<b>VI. ACCEPTED BILL GUARANTEES AND SURETIES</b>			-	-	-	-	-	-
<b>TOTAL OFF-BALANCE SHEET ITEMS (A+B)</b>			<b>396,281,583</b>	<b>322,211,172</b>	<b>718,492,755</b>	<b>349,767,246</b>	<b>253,264,366</b>	<b>603,031,612</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Unconsolidated  
Statement of Income

INCOME STATEMENT	Footnotes	THOUSAND TL	
		CURRENT PERIOD (01/01-31/12/2016)	PRIOR PERIOD (01/01-31/12/2015)
<b>I. INTEREST INCOME</b>	V-IV-a	<b>22,327,585</b>	<b>19,200,361</b>
1.1 Interest Income on Loans		18,120,295	15,688,106
1.2 Interest Income on Reserve Deposits		219,345	64,684
1.3 Interest Income on Banks		29,622	17,230
1.4 Interest Income on Money Market Placements		83	84
1.5 Interest Income on Marketable Securities Portfolio		3,940,171	3,410,608
1.5.1 Financial Assets Held for Trading		36,205	28,431
1.5.2 Financial Assets at Fair Value Through Profit and Loss		-	-
1.5.3 Financial Assets Available for Sale		3,541,291	3,295,243
1.5.4 Held to Maturity Investments		362,675	86,934
1.6 Finance Lease Income		-	-
1.7 Other Interest Income		18,069	19,649
<b>II. INTEREST EXPENSE</b>	V-IV-b	<b>11,490,304</b>	<b>10,214,805</b>
2.1 Interest on Deposits		7,572,608	6,378,023
2.2 Interest on Funds Borrowed		787,204	754,852
2.3 Interest on Money Market Funds		1,639,215	1,690,336
2.4 Interest on Securities Issued		1,469,170	1,359,913
2.5 Other Interest Expense		22,107	31,681
<b>III. NET INTEREST INCOME/EXPENSE (I - II)</b>		<b>10,837,281</b>	<b>8,985,556</b>
<b>IV. NET FEES AND COMMISSIONS INCOME/EXPENSE</b>		<b>2,840,357</b>	<b>2,388,802</b>
4.1 Fees and Commissions Received		3,343,808	2,804,157
4.1.1 Non-cash Loans		448,419	386,810
4.1.2 Other		2,895,389	2,417,347
4.2 Fees and Commissions Paid		503,451	415,355
4.2.1 Non-cash Loans		199	515
4.2.2 Other		503,252	414,840
<b>V. DIVIDEND INCOME</b>	V-IV-c	<b>682,673</b>	<b>554,940</b>
<b>VI. TRADING INCOME/LOSS (NET)</b>	V-IV-d	<b>(816,736)</b>	<b>(868,620)</b>
6.1 Gains/Losses on Securities Trading		195,238	339,454
6.2 Derivative Financial Transactions Gains/Losses		(255,225)	(1,116,327)
6.3 Foreign Exchange Gains/Losses		(756,749)	(91,747)
<b>VII. OTHER OPERATING INCOME</b>	V-IV-e	<b>1,313,972</b>	<b>1,108,588</b>
<b>VIII. TOTAL OPERATING INCOME/EXPENSE (III+IV+V+VI+VII)</b>		<b>14,857,547</b>	<b>12,169,266</b>
<b>IX. PROVISION FOR LOSSES ON LOANS AND OTHER RECEIVABLES (-)</b>	V-IV-f	<b>2,597,641</b>	<b>2,058,180</b>
<b>X. OTHER OPERATING EXPENSES (-)</b>	V-IV-g	<b>6,506,124</b>	<b>6,327,389</b>
<b>XI. NET OPERATING INCOME (VIII-IX-X)</b>		<b>5,753,782</b>	<b>3,783,697</b>
<b>XII. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>		-	-
<b>XIII. PROFIT/LOSS FROM ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD</b>		-	-
<b>XIV. NET MONETARY POSITION GAIN/LOSS</b>		-	-
<b>XV. PROFIT/LOSS ON CONTINUING OPERATIONS BEFORE TAX (XI+...+XIV)</b>	V-IV-h	<b>5,753,782</b>	<b>3,783,697</b>
<b>XVI. TAX PROVISION FOR CONTINUING OPERATIONS (±)</b>	V-IV-i	<b>1,052,576</b>	<b>701,006</b>
16.1 Current Tax Provision		889,996	392,150
16.2 Deferred Tax Provision		162,580	308,856
<b>XVII. NET PERIOD PROFIT/LOSS FROM CONTINUING OPERATIONS (XV±XVI)</b>	V-IV-j	<b>4,701,206</b>	<b>3,082,691</b>
<b>XVIII. INCOME ON DISCONTINUED OPERATIONS</b>		-	-
18.1 Income on Assets Held for Sale		-	-
18.2 Gain on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	-
18.3 Other Income on Discontinued Operations		-	-
<b>XIX. EXPENSE ON DISCONTINUED OPERATIONS (-)</b>		-	-
19.1 Expense on Assets Held for Sale		-	-
19.2 Loss on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	-
19.3 Other Expense on Discontinued Operations		-	-
<b>XX. PROFIT/LOSS ON DISCONTINUED OPERATIONS BEFORE TAX (XVIII-XIX)</b>		-	-
<b>XXI. TAX PROVISION FOR DISCONTINUED OPERATIONS (±)</b>		-	-
21.1 Current Tax Provision		-	-
21.2 Deferred Tax Provision		-	-
<b>XXII. NET PERIOD PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)</b>		-	-
<b>XXIII. NET PERIOD PROFIT/LOSS (XVII+XXII)</b>	V-IV-k	<b>4,701,206</b>	<b>3,082,691</b>
Earnings per Share (in full TL)		0.041787662	0.027401150

# Türkiye İş Bankası A.Ş.

## Unconsolidated Statement of Income and Expense Items Under Shareholders' Equity

		THOUSAND TL	
		CURRENT PERIOD (01/01-31/12/2016)	PRIOR PERIOD (01/01-31/12/2015)
<b>INCOME AND EXPENSE ITEMS UNDER SHAREHOLDERS' EQUITY</b>			
I.	ADDITIONS TO MARKETABLE SECURITIES VALUE INCREASE FUND FROM FINANCIAL ASSETS AVAILABLE FOR SALE	(1,085,893)	(2,223,225)
II.	REVALUATION SURPLUS ON TANGIBLE ASSETS	(26,214)	2,399,042
III.	REVALUATION SURPLUS ON INTANGIBLE ASSETS	-	-
IV.	TRANSLATION ADJUSTMENT FOR FOREIGN CURRENCY TRANSACTIONS	47,865	(975)
V.	PROFIT/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (Effective Portion of the Changes in Fair Value)	-	-
VI.	PROFIT/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR NET FOREIGN INVESTMENT HEDGES (Effective Portion of the Changes in Fair Value)	-	-
VII.	THE EFFECT OF CORRECTIONS OF THE ERRORS AND CHANGES IN THE ACCOUNTING POLICIES	-	-
VIII.	OTHER INCOMES AND EXPENSES RECOGNISED UNDER SHAREHOLDERS' EQUITY ACCORDANCE WITH TAS	874,429	(88,139)
IX.	DEFERRED TAX EFFECT OF REVALUATION AND VALUE INCREASES	203,738	256,993
X.	NET INCOME/EXPENSE DIRECTLY RECOGNISED UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	13,925	343,696
XI.	PROFIT/LOSS FOR THE PERIOD	4,701,206	3,082,691
1.1	Net Changes in the Fair Values of Marketable Securities (Transfer to Profit/Loss)	202,499	(175,509)
1.2	The Portion of Derivative Financial Assets Held for Cash Flow Hedges Reclassified in and Transferred to Income Statement	-	-
1.3	The Portion of Derivative Financial Assets Held for Net Foreign Investment Hedges Reclassified in and Transferred to Income Statement	-	-
1.4	Other	4,498,707	3,258,200
XII.	<b>TOTAL PROFIT/LOSS RECOGNISED FOR THE PERIOD (X±XI)</b>	<b>4,715,131</b>	<b>3,426,387</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Unconsolidated Statement of Changes in  
Shareholders' Equity

		THOUSAND TL					
CHANGES IN SHAREHOLDERS' EQUITY		Footnotes	Capital	Paid-in Capital Inflation Adjustment	Share Premium	Share Cancellation Profits	Legal Reserves
		V-V					
<b>PRIOR PERIOD (31/12/2015)</b>							
I.	Beginning Balance		4,500,000	1,615,938	3,694	-	2,246,666
II.	Corrections Made According to TAS 8		-	-	-	-	-
2.1	The Effect of Corrections of Errors		-	-	-	-	-
2.2	The Effect of Changes in Accounting Policies		-	-	-	-	-
III.	Adjusted Beginning Balance (I+II)		4,500,000	1,615,938	3,694	-	2,246,666
Changes During the Period							
IV.	Increase/Decrease Due to Mergers		-	-	-	-	-
V.	Marketable Securities Value Increase Fund		-	-	-	-	-
VI.	Hedge Reserves (Effective Portion)		-	-	-	-	-
6.1	Cash Flow Hedges		-	-	-	-	-
6.2	Net Foreign Investment Hedges		-	-	-	-	-
VII.	Revaluation Surplus on Tangible Assets		-	-	-	-	-
VIII.	Revaluation Surplus on Intangible Assets		-	-	-	-	-
IX.	Bonus Shares from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	-	-	-	-
X.	Translation Differences		-	-	-	-	-
XI.	The Effect of Disposal of Assets		-	-	-	-	-
XII.	The Effect of Reclassification of Assets		-	-	-	-	-
XIII.	The Effect of Changes in the Equity of Subsidiaries on the Equity of the Bank		-	-	-	-	-
XIV.	Capital Increase		-	-	-	-	-
14.1	Cash		-	-	-	-	-
14.2	Internal Sources		-	-	-	-	-
XV.	Share Issue		-	-	-	-	-
XVI.	Share Cancellation Profits		-	-	-	-	-
XVII.	Paid-in-Capital Inflation Adjustment		-	-	-	-	-
XVIII.	Other		-	-	-	-	-
XIX.	Net Profit/Loss for the Period		-	-	-	-	-
XX.	Profit Distribution		-	-	-	-	237,052
20.1	Dividend Paid		-	-	-	-	-
20.2	Transfer to Reserves		-	-	-	-	237,052
20.3	Other (*)		-	-	-	-	-
<b>Ending Balance (III+IV+V...+XVIII+XIX+XX)</b>			<b>4,500,000</b>	<b>1,615,938</b>	<b>3,694</b>	<b>-</b>	<b>2,483,718</b>
<b>CURRENT PERIOD (31/12/2016)</b>							
I.	Beginning Balance		4,500,000	1,615,938	3,694	-	2,483,718
Changes During the Period							
II.	Increase/Decrease Due to Mergers		-	-	-	-	-
III.	Marketable Securities Value Increase Fund		-	-	-	-	-
IV.	Hedge Reserves (Effective Portion)		-	-	-	-	-
4.1	Cash Flow Hedges		-	-	-	-	-
4.2	Net Foreign Investment Hedges		-	-	-	-	-
V.	Revaluation Surplus on Tangible Assets		-	-	-	-	-
VI.	Revaluation Surplus on Intangible Assets		-	-	-	-	-
VII.	Bonus Shares from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	-	-	-	-
VIII.	Translation Differences		-	-	-	-	-
IX.	The Effect of Disposal of Assets		-	-	-	-	-
X.	The Effect of Reclassification of Assets		-	-	-	-	-
XI.	The Effect of Changes in the Equity of Subsidiaries on the Equity of the Bank		-	-	-	-	-
XII.	Capital Increase		-	-	-	-	-
12.1	Cash		-	-	-	-	-
12.2	Internal Sources		-	-	-	-	-
XIII.	Share Issue		-	-	-	-	-
XIV.	Share Cancellation Profits		-	-	-	-	-
XV.	Paid-in-Capital Inflation Adjustment		-	-	-	-	-
XVI.	Other		-	-	-	-	-
XVII.	Net Profit/Loss for the Period		-	-	-	-	-
XVIII.	Profit Distribution		-	-	-	-	230,359
18.1	Dividend Paid		-	-	-	-	-
18.2	Transfer to Reserves		-	-	-	-	230,359
18.3	Other (*)		-	-	-	-	-
<b>Ending Balance (I+II+III...+XVI+XVII+XVIII)</b>			<b>4,500,000</b>	<b>1,615,938</b>	<b>3,694</b>	<b>-</b>	<b>2,714,077</b>

(\*) According to the Articles of Incorporation of the Bank, since a portion of the net profit for the period is distributed to the employees as a dividend, the provision provided for employee dividend distribution within the scope of "TAS 19-Employee Benefits", has been added to distributable profit.

THOUSAND TL											
Statutory Reserves	Extraordinary Reserves	Other Reserves	Net Current Period Profit/(Loss)	Prior Period Profit/(Loss)	Marketable Securities Value Increase Fund	Tangible and Intangible Assets Revaluation Reserve	Bonus Shares from Equity Participations	Hedging Reserves	Accumulated Rev. Reserve on Asset Held for Sale and Discontinued Oper.	Total Shareholder's Equity	
-	12,584,659	(1,500)	-	3,382,442	4,952,476	-	26,692	-	-	29,311,067	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	
-	12,584,659	(1,500)	-	3,382,442	4,952,476	-	26,692	-	-	29,311,067	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	(1,914,379)	-	-	-	-	(1,914,379)	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	2,279,090	-	-	-	2,279,090	
-	-	-	-	-	-	-	-	-	-	-	
-	-	(975)	-	-	-	-	-	-	-	(975)	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	
-	-	(20,040)	-	9,547	-	-	-	-	-	(10,493)	
-	-	-	3,082,691	-	-	-	-	-	-	3,082,691	
-	2,433,379	-	-	(3,382,442)	-	-	-	-	-	(712,011)	
-	-	-	-	(841,011)	-	-	-	-	-	(841,011)	
-	2,304,379	-	-	(2,541,431)	-	-	-	-	-	-	
-	129,000	-	-	-	-	-	-	-	-	129,000	
-	15,018,038	(22,515)	3,082,691	9,547	3,038,097	2,279,090	26,692	-	-	32,034,990	
-	15,018,038	(22,515)	-	3,092,238	3,038,097	2,279,090	26,692	-	-	32,034,990	
-	-	-	-	-	(11,874)	-	-	-	-	(11,874)	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	(24,903)	-	-	-	(24,903)	
-	-	-	-	-	-	-	-	-	-	-	
-	-	47,865	-	-	-	-	-	-	-	47,865	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	
-	-	2,837	-	32,992	-	-	-	-	-	35,829	
-	-	-	4,701,206	-	-	-	-	-	-	4,701,206	
-	2,039,747	-	-	(3,092,238)	-	-	-	-	-	(822,132)	
-	-	-	-	(936,132)	-	-	-	-	-	(936,132)	
-	1,925,747	-	-	(2,156,106)	-	-	-	-	-	-	
-	114,000	-	-	-	-	-	-	-	-	114,000	
-	17,057,785	28,187	4,701,206	32,992	3,026,223	2,254,187	26,692	-	-	35,960,981	

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Unconsolidated Statement of  
Cash Flows

		THOUSAND TL		
		Footnotes	CURRENT PERIOD (01/01-31/12/2016)	PRIOR PERIOD (01/01-31/12/2015)
<b>A.</b>	<b>CASH FLOWS FROM BANKING OPERATIONS</b>			
<b>1.1</b>	<b>Operating Profit Before Changes in Operating Assets and Liabilities</b>		<b>12,661,000</b>	<b>10,545,771</b>
1.1.1	Interest Received		21,709,988	18,615,121
1.1.2	Interest Paid		(11,309,254)	(10,034,161)
1.1.3	Dividend Received		364,164	207,994
1.1.4	Fees and Commissions Received		3,343,808	2,804,157
1.1.5	Other Income		688,912	762,409
1.1.6	Collections from Previously Written Off Loans and Other Receivables		519,366	419,189
1.1.7	Cash Payments to Personnel and Service Suppliers		(4,656,233)	(4,182,797)
1.1.8	Taxes Paid		(1,293,158)	(716,435)
1.1.9	Other	V-VI	3,293,407	2,670,294
<b>1.2</b>	<b>Changes in Operating Assets and Liabilities</b>		<b>19,683</b>	<b>(4,853,916)</b>
1.2.1	Net (Increase) Decrease in Financial Assets Held for Trading		(297,243)	(63,700)
1.2.2	Net (Increase) Decrease in Financial Assets at Fair Value through Profit or Loss		-	-
1.2.3	Net (Increase) Decrease in Due From Banks		3,617,441	(7,479,152)
1.2.4	Net (Increase) Decrease in Loans		(14,591,810)	(12,702,792)
1.2.5	Net (Increase) Decrease in Other Assets		358,565	(1,737,471)
1.2.6	Net Increase (Decrease) in Bank Deposits		(1,996,798)	558,751
1.2.7	Net Increase (Decrease) in Other Deposits		13,915,171	10,532,747
1.2.8	Net Increase (Decrease) in Funds Borrowed		(2,606,123)	3,854,600
1.2.9	Net Increase (Decrease) in Matured Payables		-	-
1.2.10	Net Increase (Decrease) in Other Liabilities	V-VI	1,620,480	2,183,101
<b>I.</b>	<b>Net Cash Provided From Banking Operations</b>		<b>12,680,683</b>	<b>5,691,855</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>II.</b>	<b>Net Cash Provided from/Used in Investing Activities</b>		<b>(5,198,815)</b>	<b>(4,646,743)</b>
2.1	Cash Paid for Purchase of Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	(140,227)
2.2	Cash Obtained from Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		20,453	20,452
2.3	Tangible Asset Purchases		(276,482)	(259,971)
2.4	Tangible Asset Sales		164,951	154,825
2.5	Cash Paid for Purchase of Financial Assets Available for Sale		(13,843,878)	(13,349,793)
2.6	Cash Obtained from Sales of Financial Assets Available for Sale		9,623,878	8,194,083
2.7	Cash Paid for Purchase of Investment Securities Held to Maturity		(1,470,599)	(486,510)
2.8	Cash Obtained from Sales of Investment Securities Held to Maturity <sup>(*)</sup>		845,167	1,477,766
2.9	Other	V-VI	(262,305)	(257,368)
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III.</b>	<b>Net Cash Provided from/Used in Financing Activities</b>		<b>(2,559,706)</b>	<b>(1,406,176)</b>
3.1	Cash Obtained from Funds Borrowed and Securities Issued		15,090,624	17,904,162
3.2	Cash Used for Repayment of Funds Borrowed and Securities Issued		(16,714,198)	(18,469,327)
3.3	Equity Instruments		-	-
3.4	Dividends Paid		(936,132)	(841,011)
3.5	Payments for Finance Leases		-	-
3.6	Other	V-VI	-	-
<b>IV.</b>	<b>Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b>	V-VI	<b>90,373</b>	<b>(24,402)</b>
<b>V.</b>	<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>5,012,535</b>	<b>(385,466)</b>
<b>VI.</b>	<b>Cash and Cash Equivalents at Beginning of the Period</b>		<b>8,936,321</b>	<b>9,321,787</b>
<b>VII.</b>	<b>Cash and Cash Equivalents at End of the Period</b>		<b>13,948,856</b>	<b>8,936,321</b>

(\*) Redeemed investment securities are included.

# Türkiye İş Bankası A.Ş.

## Unconsolidated Statement of Profit Distribution Table

		THOUSAND TL	
		CURRENT PERIOD (31/12/2016)	PRIOR PERIOD (31/12/2015)
<b>I.</b>	<b>DISTRIBUTION OF CURRENT YEAR PROFIT <sup>(1)</sup></b>		
1.1	CURRENT PERIOD PROFIT <sup>(2)</sup>	5,753,782	3,907,244
1.2	TAXES AND DUES PAYABLE (-)	1,052,576	701,006
1.2.1	Corporate Tax (Income Tax)	881,766	386,166
1.2.2	Income Tax Withholding	8,230	5,984
1.2.3	Other Taxes and Dues Payable <sup>(3)</sup>	162,580	308,856
<b>A.</b>	<b>NET PROFIT FOR THE PERIOD (1.1-1.2)</b>	<b>4,701,206</b>	<b>3,206,238</b>
1.3	PRIOR YEARS' LOSSES (-)	-	-
1.4	FIRST LEGAL RESERVES (-)	-	159,190
1.5	OTHER STATUTORY RESERVES (-)	-	1,957,762
<b>B.</b>	<b>NET PROFIT ATTRIBUTABLE TO [(A)-(1.3+1.4+1.5)]</b>	<b>4,701,206</b>	<b>1,089,286</b>
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	270,000
1.6.1	To Owners of Ordinary Shares	-	269,998
1.6.2	To Owners of Preferred Shares	-	2
1.6.3	To Preferred Shares (Preemptive Rights)	-	-
1.6.4	To Profit Sharing Bonds	-	-
1.6.5	To Holders of Profit/Loss Share Certificates	-	-
1.7	DIVIDENDS TO PERSONNEL (-)	-	163,969
1.8	DIVIDENDS TO THE BOARD OF DIRECTORS (-)	-	1,491
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	500,672
1.9.1	To Owners of Ordinary Shares	-	500,664
1.9.2	To Owners of Preferred Shares	-	3
1.9.3	To Preferred Shares (Preemptive Rights)	-	5
1.9.4	To Profit Sharing Bonds	-	-
1.9.5	To Holders of Profit/Loss Share Certificates	-	-
1.10	SECOND LEGAL RESERVES (-)	-	71,169
1.11	STATUTORY RESERVES (-)	-	-
1.12	EXTRAORDINARY RESERVES	-	81,985
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	-
<b>II.</b>	<b>DISTRIBUTION FROM RESERVES</b>		
2.1	DISTRIBUTED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1	To Owners of Ordinary Shares	-	-
2.3.2	To Owners of Preferred Shares	-	-
2.3.3	To Preferred Shares (Preemptive Rights)	-	-
2.3.4	To Profit Sharing Bonds	-	-
2.3.5	To Holders of Profit/Loss Share Certificates	-	-
2.4	DIVIDENDS TO PERSONNEL (-)	-	-
2.5	DIVIDENDS TO THE BOARD OF DIRECTORS (-)	-	-
<b>III.</b>	<b>EARNINGS PER SHARE</b>		
3.1	TO OWNERS OF ORDINARY SHARE <sup>(4)</sup>	0.0418	0.0274
3.2	TO OWNERS OF ORDINARY SHARE (%)	104	69
3.3	TO OWNERS OF PREFERRED SHARES <sup>(4)</sup>	-	-
3.4	TO OWNERS OF PREFERRED SHARES (%)	-	-
<b>IV.</b>	<b>DIVIDEND PER SHARE</b>		
4.1	TO OWNERS OF ORDINARY SHARES <sup>(4)</sup>	-	0.0069
4.2	TO OWNERS OF ORDINARY SHARES (%)	-	17
4.3	TO OWNERS OF PREFERRED SHARES <sup>(4)</sup>	-	0.0020
4.4	TO OWNERS OF PREFERRED SHARES (%)	-	20

<sup>(1)</sup> The decision for dividend payment is made at the Annual General Meeting. Annual General Meeting has not been held as of the reporting date.

<sup>(2)</sup> TL 114,000 which is added distribution tax base for 2015 provision provided for employee dividend distribution in 2015 within the scope of "TAS 19-Employee Benefits", has been added to prior period net profit/loss. TL 9,547 prior year's profit has been added to prior period's "net profit for the period" for the same year.

<sup>(3)</sup> The amount of current year is Deferred Tax Expense, the amount of prior period is Deferred Tax Income.

<sup>(4)</sup> Expressed in full TL

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

**SECTION THREE: EXPLANATIONS ON ACCOUNTING POLICIES****I. Basis of Presentation**

The unconsolidated financial statements, related notes and explanations in this report are prepared in accordance with the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by Banking Regulation and Supervision Authority, (together referred as "BRSA Accounting and Reporting Legislation") and requirements of Turkish Accounting Standards published the Public Oversight Accounting and Auditing Standards Authority for the matters not regulated by the aforementioned legislations.

Accounting policies applied and valuation methods used in the preparation of the financial statements are expressed in detail below.

**II. Strategy for Use of Financial Instruments and Foreign Currency Transactions****1. The Bank's Strategy on Financial Instruments**

The Bank's main activities comprise private, retail, commercial and corporate banking, money market and securities market operations, as well as activities related to international banking services.

In conformity with the general liability structure of the banking system, the Bank's liabilities are mainly composed of short-term deposits and other medium and long-term liabilities. The liquidity risk that may arise from this liability structure can be easily controlled through deposit continuity, as well as widespread network of the correspondent banks, market maker status (The Bank is one of the market maker banks) and by the use of liquidity facilities of the Central Bank of Republic of Turkey ("CBRT"). As a result, the liquidity of the Bank and the banking system can be easily monitored. On the other hand, foreign currency liquidity requirements are met by the money market operations and currency swaps.

Most of the funds collected bear fixed-interest, and by monitoring the sectoral developments and the yields of alternative investment instruments, fixed and floating rate placements are made.

Safety principle has always been the top priority in placements and the placements are focused on high yielding and low risk assets by considering their maturity structure. Accordingly, a pricing policy aiming at high return is implemented in the long-term placements and attention is paid to the maximum use of non-interest income generation opportunities. The Bank determines its lending strategy by taking into consideration the international and national economic data and expectations, market conditions, current and potential credit customers' expectations and tendencies, and risks such as; interest rate, liquidity, currency and credit risks. Furthermore, in conformity with this strategy, the Bank acts within the legal limits in terms of asset-liability management.

The primary objectives related to balance sheet components are set by the long-term plans shaped along with budgeting; and the Bank takes the required positions against the short-term currency, interest rates and price fluctuations in accordance with these plans and the course of the market conditions.

Foreign currency, interest rate and price fluctuations in the markets are monitored instantaneously. While taking positions, in addition to the legal limits, the Bank's own transaction and control limits are also effectively monitored in order to avoid limit overrides.

The Bank's asset-liability management is executed by the Asset-Liability Management Committee, within the risk limits determined by the Board of Directors, in order to keep the liquidity risk, interest rate risk, currency risk and credit risk within certain limits depending on the equity adequacy and to maximize profitability.

**2. Foreign Currency Transactions**

In the statutory records of the Bank, transactions recognized in foreign currencies (currencies except for Turkish Lira) are converted into Turkish Lira by using the prevailing exchange rates at the transaction dates. Non-monetary items in foreign currencies carried at fair value are converted into Turkish Lira by the rates at the date of which the fair value is determined. Exchange rate differences arising from the conversions of monetary foreign currency items and the collections of and payments in foreign currency transactions are reflected to the income statement.

In accordance with "TAS 21-Effects of Changes In Foreign Exchange Rates", net investments in non-domestic companies are considered as non-monetary items, measured on the basis of historical cost and converted into Turkish Currency at the currency rates at the transaction date, and also in accordance with "TAS 29-Financial Reporting In Hyperinflationary Economics", the inflation adjusted value is calculated by using the inflation indices prevailing between the date of transaction and final date that the inflation adjustment and it is accounted by allocating provision amounts for any permanent impairment losses for cost incurred before 31 December 2004.

The financial statements of the foreign branches of the Bank are prepared in the currency of the primary economic environment in which the entity operates (functional currency). The financial statements of foreign branches are expressed in TL which is the functional currency of the Bank and the presentation currency of the financial statements. Assets and liabilities of the foreign branches of the Bank are converted into TL by using the prevailing exchange rates at the balance sheet date. Income and expenses are converted by at exchange rates at the dates of the transactions. The exchange rate differences arising from the conversion are recorded in the "Other Profit Reserves" account under the shareholders' equity.

**III. Associates and Subsidiaries**

Investments in associates and subsidiaries are recognized within the scope of "TAS 27-Separate Financial Statements" and "TAS 28-Investments in Associates and Joint Ventures". Investments in subsidiaries, whose shares are traded in an active market (stock market), are shown in the financial statements with their fair values by taking into account their prices recorded in the related market (stock market). Investments in subsidiaries and associates, whose shares are not traded in an active market (stock market), are followed at their cost of acquisition and these assets are shown in the financial statements with their cost values after the deduction of, if any, impairment losses.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### IV. Forward and Option Contracts and Derivatives Instruments

Derivative transactions of the Bank consist of foreign currency and interest rate swaps, forwards, foreign currency options and interest rate options. The Bank has no derivative instruments decomposed from the main contract.

Derivative transactions are carried at their fair values at the contract dates and the receivables and payables arising from these transactions are followed under off-balance sheet accounts. Derivative transactions are measured at their fair values in the reporting periods following their recording and the valuation differences are shown under the accounts, "Derivative Financial Assets Held for Trading" and "Derivative Financial Liabilities Held for Trading", depending on the difference being positive or negative. Although some derivative transactions are qualified as economical hedging items, they do not meet all the definition requirements of hedge accounting items. Therefore, under the Turkish Accounting Standard No: 39 "Financial Instruments: Recognition and Measurement" (TAS 39), these derivative instruments are recognized as held for trading. The valuation differences arising from the valuation of derivative transactions are associated with the income statement.

On off-balance sheet items table, options which generated assets for the Bank are presented under "call options" line and which generated liabilities are presented under "put options" line.

#### V. Interest Income and Expenses

Interest income and expenses are recognized on an accrual basis using the effective interest method (the rate that equals the future cash flows of a financial asset or liability to its present net book value) in conformity with TAS 39 "Financial Instruments: Recognition and Measurement".

In accordance with the related legislation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as an interest income only when they are collected.

#### VI. Fees and Commission Income and Expenses

Fees and commission income and expenses are recorded either on accrual basis or by using the effective interest rate method. Income earned in return for services rendered contractually or due to operations like sale or purchase of assets on behalf of a third party real person or corporate body are recognized in income accounts in the period of collection.

#### VII. Financial Assets

Financial assets are comprised of cash, contractual rights to obtain cash or another financial asset from or to exchange financial instruments with the counterparty, or the capital instrument transactions of the counterparty. According to the Bank management's purpose of holding, the financial assets are classified into four groups as "Financial Assets at Fair Value through Profit And Loss", "Financial Assets Available for Sale", "Held to Maturity Investments" and "Loans and Receivables".

##### 1. Cash and Banks

Cash consists of cash in vault, foreign currency cash, money in transit, cheques purchased and precious metals. Foreign currency cash and banks are shown in the balance sheet by their amounts converted into TL at the foreign exchange rate on the balance sheet date.

##### 2. Marketable Securities

###### a. Financial Assets at Fair Value through Profit And Loss

###### a.1. Financial Assets Held for Trading

Financial assets held for trading are those acquired for the purpose of generating profit from short term market fluctuations in prices or similar elements, or securities which are part of a portfolio set up to realize short term profit regardless of the purpose of acquisition.

Financial assets held for trading is presented in the balance sheet with their fair values and are subject to valuation at fair values after the initial recognition. While measuring the fair values, market prices, quoted prices, prices set by CBRT and published in official gazette and internal pricing models are used within the context of related accounting standards.

Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are recognized under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is recognized in the "Gains on Securities Trading" account. If the fair value is less than the amortized cost, the negative difference is recognized under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

###### a.2. Financial Assets at Fair Value through Profit and Loss

Financial assets at fair value through profit and loss represent the financial assets at fair value through profit and loss at the initial recognition and those are not obtained for trading purposes. Recognition of fair value differences of those assets are similar to the financial asset held for trading.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### b. Explanations on Financial Assets Available for Sale and Held to Maturity Investments

##### b.1. Explanations on Financial Assets Available for Sale

Financial assets available for sale represent non-derivative financial assets other than bank loans and receivables, held to maturity investments and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based on the fair value including transaction costs. The amount arising from the difference between cost and amortized value is recognized through income statement by using the internal rate of return. While measuring the fair values of available for sale securities, market prices, quoted prices, prices set by CBRT and published in official gazette and internal pricing models are used within the context of related accounting standards. Unrealized gains and losses arising from changes in fair value of the financial assets available for sale are not recognized in the income statement, they are recognized in the "Marketable Securities Revaluation Fund" until the disposal, sale, redemption or incurring loss of those assets. Fair value differences recognized under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

##### b.2. Explanations on Held to Maturity Investments

Held to maturity investments are the investments, for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including the funding ability, and for which there are fixed or determinable payments with fixed maturity; and which are recognized at fair value at initial recognition. Held to maturity investments with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the internal rate of return method less provision for any impairment, if any. Interest income from held to maturity investments are recognized in the income statement as an interest income.

There are no financial assets that are classified by the Bank as held to maturity investments; however, they cannot be classified under this classification for two years for not satisfying the requirements of the related classification.

#### 3. Loans and Receivables

Loans and receivables represent unquoted financial assets in an active market that provide money, goods or services to the debtor with fixed or determinable payments.

Loans and receivables are initially recognized with their fair values including settlement costs and carried at their amortized costs calculated using the internal rate of return at the subsequent recognition.

Retail and corporate loans that are followed under cash loans are recognized at original maturities, based on their contents, under the accounts defined by the Uniform Code of Accounts (UCA) and the Explanatory Manual.

Foreign currency indexed consumer and corporate loans are followed at TL accounts after converting into TL by using the opening exchange rates. At the subsequent periods, increases and decreases in the loan capital are recognized under the foreign currency income and expense accounts in the income statement depending on foreign currency rates being higher or lower than opening date rates. Repayments are calculated using the exchange rates at the repayment dates and exchange differences are recognized under the foreign currency income and expense accounts in the income statement.

#### VIII. Impairment of Financial Assets

At each balance sheet date, the Bank reviews the carrying amounts of its financial asset or group of financial assets whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, the Bank determines the related impairment amount.

A financial asset or a group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more than one event ("loss event") subsequent to the initial recognition of that asset has an effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of their high probability of incurrence, future expected losses are not recognized.

Impairment losses attributable to the held to maturity investments are measured as the difference between the present values of estimated future cash flows discounted using the original interest rate of financial asset and the book value of asset. The related difference is recognized as a loss and it decreases the book value of the financial asset. At subsequent periods, if the impairment loss amount decreases, impairment loss recognized is reversed.

When an impairment occurs in the fair values of the "financial assets available for sale" of which value decreases and increases are recognized in equity, the accumulated profit/loss that had been recognized directly in equity is transferred from equity to period profit or loss. If the fair value of the related asset increases in a subsequent period, amount of increases are recognized in equity.

Loans are classified and followed in line with the provisions of the "Regulation on Procedures And Principles For Determination Of Qualifications Of Loans And Other Receivables By Banks And Provisions To Be Set Aside", published on the Official Gazette numbered 26333 dated 1 November 2006. Within the scope of the relevant legislation the Bank calculated to allocate specific provisions in accordance with mentioned the minimum provision rates in the Communiqué. Provisions released in the same year, "Provision Expense" account are credited in the past years, the remaining part of the provisions in the "Other Operating Income" account transferred to and recognized.

Other than specific allowances, the Bank provides "general allowances" for loan and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### IX. Offsetting Financial Instruments

A financial asset and a financial liability shall be offset and the net amount shall be presented in the balance sheet only when a party currently has a legally enforceable right to set off the recognized amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### X. Sale and Repurchase Agreements and Securities Lending Transactions

Marketable securities subject to repurchase agreements are classified under "Available for Sale Financial Assets", "Financial Assets at Fair Value Through Profit and Loss" or "Held to Maturity Investments" in the Bank's portfolio and they are valued according to the valuation principles of the related portfolios.

Funds obtained from the repurchase agreements are recognized under "Funds from Repurchase Transactions" account in liabilities. For the difference between the sale and repurchase prices determined by the repo agreements for the period; expense accrual is calculated using the internal rate of return method.

Reverse repo transactions are recognized under the "Receivables from Reverse Repo Transactions" account. For the difference between the purchase and resale prices determined by the reverse repo agreements for the period; income accrual is calculated using the internal rate of return method.

#### XI. Non-current Assets Held for Sale and Discontinued Operations and Related Liabilities

Assets that meet the criteria to be classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. Assets held for sale are not amortized or depreciated and presented in the financial statements separately. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal group), and an active programme to complete the plan should be initiated to locate a customer. Also, the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Events or circumstances may extend the completion of the sale more than one year. Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entity remains committed to its plan to sell the asset (or disposal group).

A discontinued operation is a component of a bank that either has been disposed of, or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement.

#### XII. Goodwill and Other Intangible Assets

As at the balance sheet date, there is no goodwill recorded in the unconsolidated balance sheet of the Bank.

The Bank's intangible assets are composed of software programs. The purchased items are presented with their acquisition costs less the accumulated amortization and impairment provisions. In case there is an indication of impairment, the recoverable amount of the related intangible asset is estimated within the framework of "TAS 36 - Impairment of Assets" and impairment provision is set aside in case the recoverable amount is below its acquisition cost.

The related assets are amortized by the straight-line method considering the estimated useful life. The amortization method and period are periodically reviewed at the end of each year.

#### XIII. Tangible Assets

Tangible assets purchased before 1 January 2005, are presented in the financial statements at their inflation adjusted acquisition costs as at 31 December 2004, and the items purchased in the subsequent periods are presented at acquisition costs less accumulated amortization and impairment provisions. As of the third quarter of the prior year, the Bank, has been changed its accounting policies from historical cost method to revaluation method for the real estate properties which are held for own use in accordance with "TAS 16 - Property, Plant and Equipment". The positive difference between the net book value of real estate property values and the expertise values which are determined by the certified valuation companies are recorded under the shareholders' equity.

In case there is an indication of impairment, the recoverable amount of the related intangible asset is estimated within the framework of "TAS 36 - Impairment of Assets" and impairment provision is set aside in case the recoverable amount is below its acquisition cost.

Assets under construction for leasing or for administrative purposes or for other objectives, which are not presently determined, are amortized when they are ready for use.

Tangible assets other than the land and construction in progress are amortized by the straight-line method, according to their estimated useful lives. The estimated useful life, residual amount and the method of amortization are reviewed every year for the possible effects of the changes that occur in the estimates and if there is any change in the estimates, they are recognized prospectively.

Assets held under finance lease are depreciated over the expected useful life or lease term whichever is the shorter for the specified period.

Leasehold improvements are amortized in equal amounts considering their useful life. However, in any case the useful life cannot exceed leasing term. When the lease period is not certain or longer than 5 years, the amortization period is recognized as 5 years.

The difference between the sales proceeds arising from the disposal of tangible assets or the inactivation of a tangible asset and the book value of the tangible assets are recognized in the income statement.

Regular maintenance and repair costs incurred for tangible assets are recorded as expense.

There are no restrictions such as pledges, mortgages on tangible assets.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

The depreciation rates used in amortization of tangible assets and their estimated useful lives are as follows:

	Estimated Economic Life (Year)	Depreciation Rate
Buildings	4-50	2% - 25%
Safe Boxes	2-50	2% - 50%
Other Movables	2-25	4% - 50%
Leased Assets	4-5	20% - 25%

#### XIV. Leasing Transactions

Assets acquired under financial leases are carried at the lower of their fair values or amortized value of the lease payments. Leasing payables are recognized as liabilities in the balance sheet while the interest payable portion of the payables is recognized as a deferred amount of interest. Finance lease payments are separated as financial expense and principal amount payment, which provides a decrease in finance lease liability, thus helps a fixed rate interest on the remaining principal amount of the debt to be calculated. Within the context of the Bank's general borrowing policy, financial expenses are recognized in the income statement. Assets held under financial leases are recognized under the property, plant and equipment (movable properties) account and are depreciated by using the straight line method.

The Bank does not participate in the financial leasing transactions as a "lessor".

Operational lease transactions are recognized in line with the related agreement on an accrual basis.

#### XV. Provisions and Contingent Liabilities

As of the end of the reporting period, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists, the entity recognizes a provision in the financial statements. As of the end of the reporting period where it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

In the financial statements, a provision is made for an existing commitment resulted from past events if it is probable that the commitment will be settled and a reliable estimate can be made of the amount of the obligation.

In case the provision is measured by using the estimated cash flows required to fulfill the existing liability, the book value of the related liability is equal to the present value of the related cash flows. Provisions are calculated based on the best estimates of management on the expenses to incur as of the balance sheet date to fulfill the liability by considering the risks and uncertainties related to the liability.

If the amount is not reliably estimated and there is no probability of cash outflow from the Bank to settle the liability, the related liability is considered as "contingent" and disclosed in the notes to the financial statements.

#### XVI. Contingent Assets

The contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. Since showing the contingent assets in the financial statements may result in the accounting of an income, which will never be generated, the related assets are not included in the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### XVII. Liabilities Regarding Employee Benefits

##### 1. Severance Indemnities and Short-Term Employee Benefits

According to the related regulation and the collective bargaining agreements, the Bank is obliged to pay termination benefits for employees who retire, die, quit for their military service obligations, who have been dismissed as defined in the related regulation or (for the female employees) who have voluntarily quit within one year after the date of their marriage. Within the scope of "TAS 19-Employee Benefits", the Bank allocates seniority pay provisions for employee benefits by estimating the present value of the probable future liabilities. According to TAS 19, the actuarial gains and losses occurred is recognized under equity. The Bank also allocates provision for the unused paid vacation.

##### 2. Retirement Benefit Obligations

Türkiye İş Bankası A.Ş. Emekli Sandığı Vakfı ("İşbank Pension Fund"), of which each Bank employee is a member, has been established according to the provisional Article 20 of the Social Security Act No. 506. As per provisional article numbered 23 of the Banking Law numbered 5411, it is ruled that Bank pension funds, which were established within the framework of Social Security Act, will be transferred to the Social Security Institution, within 3 years after the publication of such law. Methods and principles related to transfer have been determined as per the Cabinet decision dated 30 November 2006 numbered 2006/11345. However, the related article of the act has been cancelled upon the President's application dated 2 November 2005, by the Supreme Court's decision dated 22 March 2007, numbered E.2005/39, K.2007/33, which was published on the Official Gazette dated 31 March 2007 and numbered 26479 and the execution decision was ceased as of the issuance date of the related decision.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Turkish Grand National Assembly started to work on establishing new legal regulations, and after it was approved at the General Assembly of the TGNA, the Law numbered 5754 "Emending Social Security and General Health Insurance Act and Certain Laws and Decree Laws", which was published on the Official Gazette dated 8 May 2008 and numbered 26870, came into effect. The new law decrees that the contributors of the Bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three-year transfer period can be prolonged for maximum 2 years by the Cabinet decision. However related transfer period has been prolonged for 2 years by the Cabinet decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law "Emending Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years after that related transfer period has been prolonged for one more year by the Cabinet decision dated 8 April 2013, which was published on the Official Gazette dated 3 May 2013 and numbered 28636 also this period has been prolonged for one more year by the Cabinet decision dated 24 February 2014, which was published on the Official Gazette dated 30 April 2014 and numbered 28987. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20<sup>th</sup> provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the "Occupational Health and Safety Law and Other Laws and Decree Laws" published in the Official Gazette dated 23 April 2015 and numbered 29335.

On the other hand, the application made on 19 June 2008 by the Republican People's Party to the Constitutional Court for the annulment and motion for stay of some articles, including the first paragraph of the provisional article 20 of the Law, which covers provisions on transfers, was rejected in accordance with the decision taken at the meeting of the afore-mentioned court on 30 March 2011.

The above mentioned Law also states that;

- Through a commission constituted by the attendance of one representative separately from the Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, Banking Regulation and Supervision Agency, Savings Deposit Insurance Fund, one from each pension fund, and one representative from the organization employing pension fund contributors, related to the transferred persons, the cash value of the liabilities of the pension fund as of the transfer date will be calculated by considering their income and expenses in terms of the lines of insurance within the context of the related Law, and technical interest rate of 9.8% will be used in the actuarial calculation of the value in cash,
- And that after the transfer of the pension fund contributors, the ones who receive salaries or income from these funds and their rightful beneficiaries to the Social Security Institution, these persons' uncovered social rights and payments, despite being included in the trust indenture that they are subject to, will be continued to be covered by the pension funds and the employers of pension fund contributors.

In line with the new law, the Bank obtained a technical actuarial valuation report for the year ended 31 December 2016. And provided full provision for the total amount of technical and actual deficit in the actuarial report in the financial statements. The actuarial assumptions used in the related actuarial report are given in Section Five Note II-i-5-2.

Up to now, there has not been any deficit in Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı (İşbank Members' Supplementary Pension Fund), which has been founded by the Bank as per the provisions of the Turkish Commercial Code and Turkish Civil Code and which provides subsequent retirement benefits; and the Bank has made no payment for this purpose. It is believed that the assets of this institution are capable of covering its total obligations, and that it shall not constitute an additional liability for the Bank.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## XVIII. Taxation

## 1. Corporate Tax:

In accordance with the Article 32 of the Corporate Tax Law No: 5520, the corporate tax rate is calculated at the rate of 20%. As per the related law, temporary tax is calculated and paid quarterly in line with the principles of the Income Tax Law and at the corporate tax rate. The temporary tax payments are deducted from the current period's corporate tax. The 4<sup>th</sup> temporary provisional tax of the year 2016 will be paid in February 2017 and will be offset with the current period's corporate tax.

Tax expense is the sum of the current tax expense and deferred tax charge. Current period tax liability is calculated over taxable profit. Taxable profit is different from the profit in the income statement since taxable income or deductible expenses for the following years and non-taxable and non-deductible items are excluded. Current taxes are shown in the financial tables by offsetting with prepaid taxes.

Within the framework of the Corporate Tax Law numbered 5520, 75% of the gains on the sale of the participation shares, which were held in the assets for a minimum of 2 whole years and 75% of the gains on the sale of immovable are exempt from tax provided that they are added to the capital as set forth by the Law or that they are kept in a special fund under liabilities for a period of 5 years.

## 2. Deferred Tax:

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. General provisions that are allocated for possible future risks are included in the tax base and they are not subject to deferred tax calculation. No tax assets or liabilities are recognized for the temporary timing difference that affects neither the taxable profit nor the accounting profit and that arises from the initial recognition in the balance sheet, of assets and liabilities, other than the goodwill and mergers.

The carrying values of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at enacted tax rates prevailing in the period when the assets are realized or liabilities are settled, and the tax is recorded as income or expense in the income statement. Nonetheless, if the deferred tax is related to assets directly associated with the equity in the same or different period, it is directly recognized in the equity accounts.

Deferred tax assets and liabilities are shown in financial tables by way of offsetting.

## 3. Tax Practices in the Countries that Foreign Branches Operate:

Turkish Republic of Northern Cyprus (TRNC)

According to the tax regulations in the Turkish Republic of Northern Cyprus, corporate gains are separately subject to 10% corporate tax and 15% income tax. The tax bases for companies are determined by adding the expenses that cannot be deducted according to TRNC regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. Income tax is paid in June, and corporate tax payment is made in two installments, in May and in October. On the other hand, withholding tax is paid in TRNC over interest income and similar gains of the companies. The relevant withholding tax payments are deducted from the corporate tax-payable.

England

Corporate earnings are subject to 20% corporate tax in England. The relevant rate is applied to the tax base that is determined by adding the expenses that cannot be deducted due to the regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. On the other hand, if the tax base of the relevant year, is higher than the amount found the corporate tax payments are made as temporary tax payments in four installments in July and October of the relevant year and in January and April of the following year. Relevant temporary tax payments are deducted from the corporate tax that is finalized until the end of January of the second year following the relevant year. On the other hand, if the tax base is under the afore-mentioned threshold, corporate tax is paid by the end of September following the year that the profit is made.

Bahrain

Banks in Bahrain are not subject to tax according to the regulations of the country.

The Republic of Iraq (Iraq)

The corporate tax is 15% in Iraq. In central government- dependent cities tax is paid in the following year to the related tax administration by the end of June, at the latest and in the cities under the administration of Northern Iraq tax is paid in the following year to the related tax administration by the end of April, at latest and the financial statements must be presented and accrued taxes must be paid. On the other hand, Tax Administrations Regional Government in Northern Iraq can recognize the fixed tax except signified rates.

Kosovo

Corporate earnings are subject to income tax rate of 10% according to the Kosovo legislation. This ratio is applied to the tax base that will be calculated as a result of the implementation of exemptions, deductions, addition of disallowable expenses, to the income of corporations and that are calculated in accordance with the tax laws. Tax has to be paid in advance until April, July, October and the 15<sup>th</sup> day of January of the following year by four installments. If those prepaid taxes are lower than the final corporate tax, the difference is paid until the ending of March of the following year, in case of a claim made by the company, if it is higher, then the difference is returned to the institution by the tax authorities after the inspection conducted by those institution.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### 4. Transfer Pricing:

Transfer pricing is regulated through article 13 of Corporate Tax Law titled "Transfer Pricing through camouflage of earnings". Detailed information for the practice regarding the subject is found in the "General Communiqué Regarding Camouflage of Earnings through Transfer Pricing".

According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against "arm's length principle", the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

#### XIX. Borrowings

The Bank, whenever required, generates funds from individuals and institutions residing domestically and abroad by approaching the borrowing instruments in the form of syndication, securitization, collateralized borrowing and issue of bonds/bills. Such transactions are at first carried at acquisition cost, and in the following periods they are valued at amortized cost measured by using the internal rate of return method.

#### XX. Equity Shares and Issuance of Equity Securities

Share issuance related to costs is recognized as expenses.

Dividend income related with the equity shares are determined by the General Assembly of the Shareholders.

Weighted average number of shares outstanding is taken into account in the calculation of earnings per share. In case the number of shares increases by way of bonus issues as a result of the capital increases made by using the internal sources, the calculation of earnings per share is made by adjusting the weighted average number of shares, which were previously calculated as at the comparable periods. The adjustment means that the number of shares used in calculation is taken into consideration as if the bonus issue occurred at the beginning of the comparable period. In case such changes in the number of shares occur after the balance sheet date, but before the ratification of the financial statements to be published, the calculation of earnings per share are based on the number of new shares. The Bank's earnings per share calculations taking place in the income statement are as follows:

	Current Period	Prior Period
Net Period Profit	4,701,206	3,082,691
Weighted average number of share certificates ('000)	112,502,250	112,502,250
Earnings per share - (in exact TL)	0.041787662	0.027401150

#### XXI. Bank Acceptances and Bills of Guarantee

Bill guarantees and acceptances are realized simultaneously with the customer payments and they are presented as possible liabilities and commitments in the off-balance sheet accounts.

#### XXII. Government Incentives

There are no government incentives utilized by the Bank, during the current or prior accounting periods.

#### XXIII. Segment Reporting

Business segment is the part of an enterprise,

- which conducts business operations where it can gain revenues and make expenditures (including the revenues and expenses related to the transactions made with the other parts of the enterprise),
- whose operating results are regularly monitored by the authorities with the power to make decisions related to the operations of the enterprise in order to make decisions related to the funds to be allocated to the segment and to evaluate the performance of the segment, and
- which has its separate financial information.

Information on the Bank's business segmentation and related information is explained in Section Four Note XII.

#### XXIV. Other Disclosures

None

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## SECTION FOUR: INFORMATION ON THE FINANCIAL POSITION OF THE BANK

## I. Explanations on Shareholders' Equity:

The Bank's capital adequacy standard ratio is 15.17%. (As of current period "Regulations on Equities of Banks" has been changed and capital adequacy ratio has been calculated as 15.65% in accordance with the former regulation as of 31 December 2015).

	Current Period	Amount as per the regulation before 1/1/2014 <sup>(1)</sup>
<b>COMMON EQUITY TIER I CAPITAL</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	6,115,938	
Share Premium	3,694	
Legal Reserves	19,404,925	
Other Comprehensive Income according to TAS	7,537,334	
Profit	4,734,198	
Net Current Period Profit	4,701,206	
Prior Period Profit	32,992	
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	26,692	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>37,822,781</b>	
<b>Deductions From Common Equity Tier I Capital</b>		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital		
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	1,861,800	
Leasehold improvements on operational leases (-)	90,623	
Goodwill Netted with Deferred Tax Liabilities		
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	218,945	364,908
Deferred Tax Assets that Rely on Future Profitability Excluding Those Arising from Temporary Differences (net of related tax liability)		
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting		
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach		
Securitization gains		
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness		
Net amount of defined benefit plans		
Direct and Indirect Investments of the Bank on its own Tier 1 Capital (-)		
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)		
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)		
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)		
Mortgage servicing rights (amount above 10% threshold) (-)		
Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)		
Amount Exceeding the 15% Threshold of Tier 1 Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)		
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or more of the Issued Share Capital not deducted from Tier 1 Capital (-)		
Mortgage servicing rights (amount above 10% threshold) (-)		
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)		
Other items to be defined by the regulator (-)		

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

	Current Period	Amount as per the regulation before 1/1/2014 <sup>(1)</sup>
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)		
<b>Total Deductions from Common Equity Tier I Capital</b>	<b>2,171,368</b>	
<b>Total Common Equity Tier I Capital</b>	<b>35,651,413</b>	
<b>ADDITIONAL TIER I CAPITAL</b>		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)		
<b>Additional Tier I Capital before Deductions</b>		
<b>Deductions from Additional Tier 1 Capital</b>		
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)		
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation		
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier 1 Capital (-)		
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier 1 Capital of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital (-)		
Other items to be Defined by the regulator (-)		
<b>Items to be Deducted from Tier 1 Capital during the Transition Period</b>		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier 1 Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	145,963	
Net Deferred Tax Asset/Liability not deducted from Tier 1 Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)		
Deduction from Additional Tier 1 Capital when there is not enough Tier II Capital (-)		
<b>Total Deductions from Additional Tier I Capital</b>		
<b>Total Additional Tier I Capital</b>		
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>35,505,450</b>	
<b>TIER II CAPITAL</b>		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	2,467,000	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	3,073,495	
<b>Total Deductions from Tier II Capital</b>	<b>5,540,495</b>	
<b>Deductions from Tier II Capital</b>		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)		
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation		
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)		
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)		
Other items to be Defined by the regulator (-)		
<b>Total Deductions from Tier II Capital</b>		
<b>Total Tier II Capital</b>	<b>5,540,495</b>	
<b>Total Equity (Total Tier I and Tier II Capital)</b>	<b>41,045,945</b>	

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

	Current Period	Amount as per the regulation before 1/1/2014 <sup>(1)</sup>
<b>Deductions from Total Equity</b>	<b>49,624</b>	
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	154	
Net Book Values of Movables and Immovable's Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	31,001	
Other items to be Defined by the regulator (-)	18,469	
<b>Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period</b>		
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Common Equity, Additional Tier I Capital, Tier II Capital as per the 1 <sup>st</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks. (-)		
Portion of the total of net long positions of direct or indirect investments made in Additional Tier I and Tier II Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier I Capital and Tier II Capital as per the 1 <sup>st</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks. (-)		
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1 <sup>st</sup> and 2 <sup>nd</sup> Paragraph of the 2 <sup>nd</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks (-)		
<b>CAPITAL</b>		
Total Capital (Total of Tier I Capital and Tier II Capital)	40,996,321	
Total Risk Weighted Assets	270,199,273	
<b>CAPITAL ADEQUACY RATIOS</b>		
Common Equity Tier I Capital Ratio (%)	13.19	
Tier I Capital Ratio (%)	13.14	
Capital Adequacy Ratio (%)	15.17	
<b>BUFFERS</b>		
Bank-specific total Common Equity Tier I Capital Ratio	5.636	
Capital Conservation Buffer Ratio (%)	0.625	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%) <sup>(2)</sup>	0.511	
Additional Common Equity Tier I Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	7.140	
<b>Amounts Lower Than Excesses as per Deduction Rules</b>		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital		
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	124,575	
Remaining Mortgage Servicing Rights		
Net Deferred Tax Assets arising from Temporary Differences	515,899	
<b>Limits for Provisions Used in Tier II Capital Calculation</b>		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	3,073,861	
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	3,073,495	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach		
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets		
<b>Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)</b>		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4		
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit		
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	2,467,000	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	2,419,000	

<sup>(1)</sup> Represents the amounts taken into consideration according to transition clauses.<sup>(2)</sup> Systemically important bank buffer is added to bank-specific counter-cyclical capital buffer ratio in accordance with Regulation on Systemically Important Banks.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

	Prior Period <sup>(1)</sup>
<b>COMMON EQUITY TIER I CAPITAL</b>	
Paid-in Capital to be Entitled for Compensation after All Creditors	6,115,938
Share Premium	3,694
Share Cancellation Profits	
Legal Reserves	17,157,259
Other Comprehensive Income according to TAS	6,676,572
Profit	3,092,238
Net Current Period Profit	3,082,691
Prior Period Profit	9,547
Provisions for Possible Losses	800,000
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	26,692
Common Equity Tier 1 capital before regulatory adjustments	<b>33,872,393</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>	
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	1,037,402
Leasehold improvements on operational leases (-)	103,325
Goodwill and intangible assets and related deferred tax liabilities (-)	139,581
Net deferred tax assets/liabilities (-)	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	
Investments in own common equity (-)	1,886
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
Mortgage servicing rights (amount above 10% threshold) (-)	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) (-)	
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital not deducted from Tier I Capital (-)	
Mortgage servicing rights (amount above 10% threshold) (-)	
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	
Other items to be defined by the regulator (-)	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions (-)	
Total regulatory adjustments to Common equity Tier 1	1,282,194
<b>Common Equity Tier 1 capital</b>	<b>32,590,199</b>
<b>ADDITIONAL TIER 1 CAPITAL</b>	
Privileged stocks which are not included in common equity and share premiums	
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 01.01.2014)	
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained before 01.01.2014)	
Additional Tier 1 capital before regulatory adjustments	
<b>Additional Tier 1 capital: regulatory adjustments</b>	
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
The Total of Net Long Position of the Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	
Other items to be Defined by the regulator (-)	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions (-)	
Total regulatory adjustments to Additional Tier 1 capital	
Additional Tier 1 capital	

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

	Prior Period <sup>(1)</sup>
<b>Regulatory adjustments to Common Equity</b>	
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	209,372
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	
<b>Tier 1 capital</b>	<b>32,380,827</b>
<b>TIER II CAPITAL</b>	
Directly issued qualifying Tier II instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained after 01.01.2014)	
Directly issued qualifying Tier II instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained before 01.01.2014)	2,915,640
Pledged sources on behalf of the Bank for the use of committed share capital increase by shareholders	
General Provisions	2,726,321
Tier II capital before regulatory adjustments	5,641,816
<b>Tier II capital: regulatory adjustments</b>	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	
Other items to be Defined by the regulator (-)	
Total regulatory adjustments to Tier II capital	
Tier II capital	5,641,816
<b>CAPITAL</b>	<b>38,022,643</b>
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	1,453
Net Book Values of Movables and Immovable's Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	30,724
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	210,350
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	
Other items to be Defined by the regulator (-)	13,452
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Common Equity, Additional Tier I Capital, Tier II Capital as per the 1 <sup>st</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks. (-)	
Portion of the total of net long positions of direct or indirect investments made in Additional Tier I and Tier II Capital Items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier I Capital and Tier II Capital as per the 1 <sup>st</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks. (-)	
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1 <sup>st</sup> and 2 <sup>nd</sup> Paragraph of the 2 <sup>nd</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks (-)	
<b>EQUITY</b>	<b>37,766,664</b>
Amounts below the thresholds for deduction	
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	
Remaining total of net long positions of the investments in Tier I capital of Unconsolidated banks and Financial Institutions where the Bank owns more than 10% of the Tier I Capital	124,575
Remaining mortgage servicing rights	
Net deferred tax assets arising from temporary differences	474,710

<sup>(1)</sup> The capital amount of prior period has been calculated pursuant to former regulations.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### Details on Subordinated Liabilities:

Issuer	Türkiye İş Bankası A.Ş.	
Identifier(s) (CUSIP, ISIN etc.)	US900151AB70 - XS0847042024	US900151AF84 - XS1003016018
Governing law(s) of the instrument	Subject to English Law with the exception of certain conditions that are subject to Turkish Law. Issued under the BRSA Regulation on Equities of Banks (published in the Official Gazette dated 1 November 2006 (No. 26333))	Subject to English Law with the exception of certain conditions that are subject to Turkish Law. Issued under the BRSA Regulation on Equities of Banks (published in the Official Gazette dated 1 November 2006 (No. 26333))
<b>Regulatory treatment</b>		
Subject to 10% deduction as of 1/1/2015	Yes	No
Eligible on unconsolidated and/or consolidated basis	Unconsolidated and Consolidated	Unconsolidated and Consolidated
Instrument type	Bond	Bond
Amount recognized in equity capital calculation (As of the most recent reporting date-in TL million)	1,071	1,396
Nominal value of the instrument amount (in TL million)	3,490	1,396
Accounting classification of the instrument	Subordinated Liabilities	Subordinated Liabilities
Date of issuance of the instrument	24.10.2012	10.12.2013
Maturity structure of the instrument (Perpetual or dated)	Dated	Dated
Original maturity of the instrument	10 Years	10 Years
Issuer call subject to prior supervisory (BRSA) approval	Yes	Yes
Optional call date, contingent call dates and redemption amount	The Bank; (1) subject to prior approval of the BRSA and not earlier than the fifth anniversary of the Issue Date a) can purchase the bonds b) can redeem all bonds if a tax event arises (2) can redeem all bonds in case of a capital disqualification event.	The Bank, (1) to the extent permitted by the relevant regulations, can purchase the bonds or acquire them in any manner, (2) subject to prior approval of the BRSA can redeem all bonds (a) if a tax event arises, (b) in case of a capital disqualification event.
Subsequent call dates, if applicable	None	None
<b>Coupon/dividend payments</b>		
Fixed or floating coupon/dividend payments	Fixed	Fixed
Coupon rate and any related index	6%	7.85%
Existence of any dividend payment restriction	None	None
Fully discretionary, partially discretionary or mandatory	None	None
Existence of step up or other incentive to redeem	None	None
Noncumulative or cumulative	Noncumulative	Noncumulative
<b>Convertible or non-convertible into equity shares</b>		
If convertible, conversion trigger (s)		
If convertible, fully or partially		
If convertible, conversion rate		
If convertible, mandatory or optional conversion		
If convertible, type of instrument convertible into		
If convertible, issuer of instrument to be converted into		

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

<b>Write-down feature</b>	None	Bonds can be written down in accordance with the paragraph 8 (2)(ğ) of the Regulation on Equities of Banks.
If bonds can be written-down, write-down trigger(s)		Due to the losses incurred, where the Bank is at the point at which the BRSA may determine pursuant to Article 71 of the Banking Law (No. 5411) that: (i) its operating licence is to be revoked and the Bank is liquidated or (ii) the rights of all of its shareholders (except to dividends), and the management and supervision of the Bank, are to be transferred to the SDIF on the condition that losses are deducted from the capital of existing shareholders, the bonds can be written-down.
If bonds can be written-down, full or partial		Partially or fully
If bond can be written-down, permanent or temporary		Continuously
If temporary write-down, description of write-up mechanism		
Position in subordination hierarchy in case of liquidation (instrument type immediately senior to the instrument)	In priority to equity shares and Tier 1 subordinated debts and after all the other debts.	In priority to equity shares and Tier 1 subordinated debts and after all the other debts.
Whether there is any condition in Articles 7 and 8 of the Regulation on Equities of Banks, that the instrument is not in compliance with	Yes	Yes
Conditions of Articles 7 and 8 of the Regulation on Equities of Banks, that the instrument is not in compliance with	Not compliant with article 7 and the clause of 8.2.(ğ) of article 8.	The instrument is in compliance with all conditions of article 8 but not compliant with article 7.

## Reconciliation of capital items to balance sheet

Current Period	Carrying Amount	Amounts in Equity Calculation <sup>(1)</sup>
Shareholders' equity	35,960,981	35,960,981
Leasehold improvements on operational leases	90,623	(90,623)
Goodwill and intangible assets	374,192	(364,908)
General provision	3,073,861	3,073,495
Subordinated debt	4,930,016	2,467,000
Deductions from shareholders' equity	49,624	(49,624)
<b>Capital</b>		<b>40,996,321</b>

<sup>(1)</sup> The related amounts are calculated in accordance with "Regulation on Equities of Banks". Within this framework, the part up to 1.25% of the amount subject to credit risk of the general provision and the amount of subordinated loans determined in the temporary article 4 of the Regulation are taken into consideration in the calculation of equity.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### II. Explanations on Credit Risk

1. Credit risk is defined as the possibility of incurring loss where the counterparty in a transaction, partially or completely fails to meet its contractual obligations in due time in an agreement with the Bank.

The Bank's position against the credit risk limits defined by the current legislation is monitored by the Board. Within this framework, loans extended to Risk Groups and the Bank's Risk Group, including the Bank; loans in high amounts and limitations regarding the shares in participations are monitored according to the limits determined in connection with the size of the shareholders' equity.

Credit risk limits of customers are determined depending on the financial situation and loan requirements of the borrowers, in strict compliance with the relevant banking legislation, within the framework of loan authorization limits of Branches, Regional Offices, Loan Divisions, the Deputy Chief Executives responsible for loans, the CEO, the Credit Committee and Board of Directors. These limits may be changed as may be deemed necessary by the Bank. Moreover, all commercial credit limits are revised periodically, provided that each period does not exceed a year. Furthermore, the borrowers and borrower groups forming a large proportion of the overall placement are subject to risk limits in order to provide further minimization of potential risk.

The geographical distribution of borrowers is consistent with the concentration of industrial and commercial activities in Turkey.

The distribution of borrowers by sector is monitored closely for each period and sectoral risk limits have been determined to prevent concentration of risk in sectoral sense.

The credit-worthiness of customers is monitored on a consistent basis by using company rating and scoring models specially developed for this purpose, and the audit of statements of account received is assured to have been made in accordance with the provisions as stipulated by the relevant legislation.

Utmost importance is given to ensure that loans are furnished with collaterals. Allocation decision, by the definition of credit risk, is not based on the assumption of collaterals can be liquidized. Most of the loans extended are collateralized by taking real estate, movable or commercial enterprise under pledge, promissory notes and other liquid assets as collateral, or by acceptance of bank letters of guarantee and individual or corporate guarantees. Jurisdictional applicability of collaterals in default, time required to convert to money and ability to maintain expected values are taken into consideration from the beginning of the credit allocation process. Most of the loans are collateralized by the receipt of real estate and securities pledge, commercial enterprise pledge, exchange notes and other liquid securities receivables, bank letters of guarantees and surety of other persons and institutions. It is an important element of the credit policy that disinclude concentration on collateral

Non-performing and impaired loans has classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables (the Provisioning Regulation) published on the Official Gazette no.2633 dated 1 November 2006. The detailed descriptions of these methods correspond with accounting practices, are included in Section Three Note VIII.

Credit risk is the risk reduction effects without taking into consideration the total amount of exposures after offsetting transactions with different risk classes according to the types and amounts of disaggregated risks are listed below the average for the period.

Exposure Categories <sup>(1)</sup>	Current Period Risk Amount	Average Risk Amount <sup>(2)</sup>
Conditional and unconditional exposures to central governments or central banks	80,814,442	78,830,104
Conditional and unconditional exposures to regional governments or local authorities	51,239	35,962
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	268,636	251,909
Conditional and unconditional exposures to multilateral development banks	4,906	1,664
Conditional and unconditional exposures to international organizations		
Conditional and unconditional exposures to banks and brokerage houses	12,525,886	11,348,403
Conditional and unconditional exposures to corporates	143,264,225	127,645,301
Conditional and unconditional retail exposures	50,976,248	49,629,950
Exposures secured by residential real estate property	16,789,746	15,224,863
Exposures secured by commercial real estate property	22,669,324	20,712,605
Past due items	1,113,398	1,025,483
Items in regulatory high-risk categories	137,232	103,177
Exposures in the form of bonds secured by mortgages		
Securitization positions		
Short term exposures to banks, brokerage houses and corporates		
Exposures in the form of collective investment undertakings		
Other items	9,715,752	9,592,011
Share Certificate Investment	10,567,673	10,121,968

<sup>(1)</sup> Risk amounts after the credit conversions and the effects of credit risk mitigation

<sup>(2)</sup> Average risk amounts are the arithmetical average of the amounts in quarterly reports prepared.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

2. There are certain control limits on forward transactions in terms of counter parties, and the risks taken for derivative instruments are evaluated along with other potential risks resulting from the market fluctuations.

3. As a result of the current level of customers' needs and the progress in the domestic market in this particular area, the Bank uses derivative transactions either for hedging or for commercial purposes.

Derivative instruments with a remarkable volume are monitored with consideration that they can always be liquidated in case of need.

4. Indemnified non-cash loans are considered as having the same risk weights as unpaid cash loans.

The rating and scoring systems applied by the Bank, includes detailed company analysis and enables rating of all companies and loans without any restrictions regarding credibility. Loans and companies, which have been renewed, restructured or rescheduled, are rated within the scope of this system. Specialized loans are evaluated by a special rating system, which is based on the credibility of the counterparty as well as the feasibility and risk analysis of the cash flows created mainly by the projects undertaken or the asset financed.

5. Lending transactions abroad are conducted by determining the country risks of related countries within the context of the current rating system and by taking the market conditions, country risks, and the relevant legal limitations into account. Furthermore, the credibility of banks and other financial institutions established abroad is examined within the framework of the ratings that are determined by rating agencies and backed with CDS-IR (based on credit default swap) ratings and credit limits are assigned to the related banks and financial institutions accordingly.

6. (i) The share of the Bank's receivables from the top 100 and 200 cash loan customers in the overall cash loan portfolio stands at 24%, 32%, respectively (31 December 2015: 22%, 29%).

(ii) The share of the Bank's receivables from the top 100 and 200 non-cash loan customers in the overall non-cash portfolio stands at 54%, 65% respectively (31 December 2015: 51%, 61%).

(iii) The share of the Bank's cash and non-cash receivables from the top 100 and 200 loan customers in the overall cash and non-cash loans stands at 18%, 24%, respectively (31 December 2015: 16%, 22%).

Companies that are among the top loan customers ranked according to cash, non-cash and total risks are leaders in their own sectors, the loans advanced to them are in line with their volume of industrial and commercial activity. A significant part of such loans is extended on a project basis, with their repayment sources being analyzed in accordance with the banking principles to be considered as satisfactory and associated risks are determined and duly covered by obtaining appropriate guarantees when deemed necessary.

7. The total value of the general provisions allocated for credit risk stands at TL 3,073,861.

8. The Bank measures the quality of its loan portfolio by applying different rating/scoring models on cash commercial/corporate loans, retail loans and credit cards. The breakdown of the rating/scoring results, which are classified as "Strong", "Standard" and "Below Standard" by considering their default features, is shown below.

The loans whose borrowers' capacity to fulfill their obligations is very good, are defined as "Strong", whose borrowers' capacity to fulfill its obligations in due time is reasonable, are defined as "Standard" and whose borrowers' capacity to fulfill their obligations is poor, are defined as "Below Standard".

	Current Period	Prior Period
Strong	39.91%	41.66%
Standard	50.57%	51.32%
Below Standard	7.03%	5.72%
Not Rated/Scored	2.49%	1.30%

The table data comprises behavior rating/scoring results; due to the changes in rating/scoring models in the current period, the breakdown of the loan portfolio in 2015 is reported with updates in order to make it comparable.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

9. The net values of the collaterals of the closely monitored loans are given below in terms of collateral types and risk matches.

Type of Collateral	Current Period			Prior Period		
	Personal	Commercial and Corporate	Credit Cards	Personal	Commercial and Corporate	Credit Cards
Real Estate Mortgage <sup>(1)</sup>	529,644	1,814,255		393,980	611,286	
Cash Collateral (Cash, securities pledge, etc.)	3,793	11,892		2,299	15,103	
Pledge on Wages and Vehicles	373,425	101,681		383,725	115,505	
Cheques & Notes		64,034			94,843	
Other (Suretyship, commercial enterprise under pledge, commercial papers, etc.)	91,851	1,361,077		105,728	867,935	
Non-collateralized	398,417	817,656	657,160	382,950	172,283	540,311
<b>Total</b>	<b>1,397,130</b>	<b>4,170,595</b>	<b>657,160</b>	<b>1,268,682</b>	<b>1,876,955</b>	<b>540,311</b>

<sup>(1)</sup> The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair values of collaterals in expertise reports; and after comparing the results to the mortgage/pledge amounts and loan balances, the smallest figures are considered to be the net value of collaterals.

10. The net values of the collaterals of non-performing loans are given below in terms of collateral types and risk matches.

Type of Collateral	Current Period		Prior Period	
	Net Value of the Collateral	Loan Balance	Net Value of the Collateral	Loan Balance
Real Estate Mortgage <sup>(1)</sup>	919,877	919,877	485,365	485,365
Cash Collateral				
Vehicle Pledge	107,709	107,709	74,667	74,667
Other (Suretyship, commercial enterprise under pledge, commercial papers, etc.)	55,227	55,227	53,661	53,661

<sup>(1)</sup> The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair values of collaterals in expertise reports, and after comparing the results to the mortgage/pledge amounts and loan balances the smallest figures are considered to be the net value of collaterals.

11. The aging analysis of the receivables past due but not impaired in terms of financial asset classes, is as follows:

Current Period <sup>(1)</sup>	31-60 Days <sup>(2)</sup>	61-90 Days <sup>(2)</sup>	Total
Loans			
Corporate/Commercial Loans	127,775	107,312	235,087
Consumer Loans	59,931	30,132	90,063
Credit Cards	186,271	114,784	301,055
<b>Total</b>	<b>373,977</b>	<b>252,228</b>	<b>626,205</b>

<sup>(1)</sup> The loans classified as closely monitored that are not past due or past due for less than 31 days is TL 4,258,881.

<sup>(2)</sup> Related figures show only overdue amounts of installment based commercial loans and installment based consumer loans; the principal amounts of the loans which are not due as of the balance sheet date are equal to TL 766,380 and TL 573,419 respectively.

Prior Period <sup>(1)</sup>	31-60 Days <sup>(2)</sup>	61-90 Days <sup>(2)</sup>	Total
Loans			
Corporate/Commercial Loans	55,111	39,198	94,309
Consumer Loans	55,067	23,975	79,042
Credit Cards	152,028	65,410	217,438
<b>Total</b>	<b>262,206</b>	<b>128,583</b>	<b>390,789</b>

<sup>(1)</sup> The loans classified as closely monitored that are not past due or past due for less days is TL 2,251,541.

<sup>(2)</sup> Related figures show only overdue amounts of installment based commercial loans and installment based consumer loans; the principal amounts of the loans which are not due as of the balance sheet date are equal to TL 505,559 and TL 538,059 respectively.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## 12. Profile of significant exposures in major regions

Current Period	Domestic	European Union	OECD Countries <sup>(2)</sup>	Off-Shore Banking Regions	USA, Canada	Other Countries	Investments in Associates, Subsidiaries and Jointly Controlled Entities	Undistributed Assets/Liabilities <sup>(3)</sup>	Total
<b>Risk Groups <sup>(1)</sup></b>									
Contingent and Non-Contingent Receivables from Central Governments or Central Banks	79,953,147					861,295			80,814,442
Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	50,731					508			51,239
Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	268,517					119			268,636
Contingent and Non-Contingent Receivables from Multilateral Development Banks		4,731			175				4,906
Contingent and Non-Contingent Receivables from International Organizations									
Contingent and Non-Contingent Receivables from Banks and Intermediaries	2,924,711	8,230,656	276,645	2,598	268,346	822,930			12,525,886
Contingent and Non-Contingent Corporate Receivables	139,785,035	852,730	2,143	529	34,424	2,589,364			143,264,225
Contingent and Non-Contingent Retail Receivables	50,288,578	183,301	19,773	4,054	18,740	461,802			50,976,248
Contingent and Non-Contingent Receivables Secured by Residential Property	38,971,386	150,202	23,688	3	11,327	302,464			39,459,070
Non-Performing Receivables	1,108,192	1,997	86	3	195	2,925			1,113,398
Receivables are identified as high risk by the Board	130,539	101	4		22	6,566			137,232
Secured Marketable Securities									
Securitization Positions									
Short-term Receivables and Short-term Corporate Receivables from Banks and Intermediaries									
Investments as Collective Investment Institutions									
Other Receivables	9,715,752								9,715,752
Share Certificate Investments <sup>(4)</sup>							10,567,673		10,567,673
<b>Total</b>	<b>323,196,588</b>	<b>9,423,718</b>	<b>322,339</b>	<b>7,187</b>	<b>333,229</b>	<b>5,047,973</b>	<b>10,567,673</b>		<b>348,898,707</b>

<sup>(1)</sup> Risk amounts after the credit conversions and the effects of credit risk mitigation<sup>(2)</sup> OECD countries other than EU countries, USA and Canada<sup>(3)</sup> Assets and liabilities that are not consistently allocated<sup>(4)</sup> Represented in other receivables in the prior period.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

Prior Period	Domestic	European Union	OECD Countries <sup>(2)</sup>	Off-Shore Banking Regions	USA, Canada	Other Countries	Investments in Associates, Subsidiaries and Jointly Controlled Entities	Undistributed Assets/Liabilities <sup>(3)</sup>	Total
<b>Risk Groups <sup>(1)</sup></b>									
Contingent and Non-Contingent Receivables from Central Governments or Central Banks	74,983,459	506				677,752			75,661,717
Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	44,908					1,491			46,399
Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	243,096					248			243,344
Contingent and Non-Contingent Receivables from Multilateral Development Banks		308			215				523
Contingent and Non-Contingent Receivables from International Organizations									
Contingent and Non-Contingent Receivables from Banks and Intermediaries	2,374,263	5,263,225	367,826	43,286	341,384	637,534			9,027,518
Contingent and Non-Contingent Corporate Receivables	118,980,912	3,035,295	6,790	555	2,617,841	2,738,941			127,380,334
Contingent and Non-Contingent Retail Receivables	37,285,672	116,124	14,432	227	8,297	179,825			37,604,577
Contingent and Non-Contingent Receivables Secured by Residential Property	33,006,061	134,461	25,749	6	9,660	305,331			33,481,268
Non-Performing Receivables	895,393	995	30		46	672			897,136
Receivables are identified as high risk by the Board	13,883,832	41,881	5,683	141	3,814	286,817			14,222,168
Secured Marketable Securities									
Securitization Positions									
Short-term Receivables and Short-term Corporate Receivables from Banks and Intermediaries									
Investments as Collective Investment Institutions									
Other Receivables	8,602,373						9,393,598		17,995,971
<b>Total</b>	<b>290,299,969</b>	<b>8,592,795</b>	<b>420,510</b>	<b>44,215</b>	<b>2,981,257</b>	<b>4,828,611</b>	<b>9,393,598</b>		<b>316,560,955</b>

<sup>(1)</sup> The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

<sup>(2)</sup> OECD countries other than EU countries, USA and Canada

<sup>(3)</sup> Assets and liabilities that are not consistently allocated

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## 13. Risk profile by sectors or counterparties:

	Current Period							
	Bank							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sectors/Counterparty <sup>(14)</sup>								
<b>Agricultural</b>		<b>1,380</b>	<b>1,338</b>			<b>1,156,931</b>	<b>708,237</b>	
Farming and Raising Livestock		1,380	1,338			1,044,564	663,917	
Forestry						62,557	34,766	
Fishing						49,810	9,554	
<b>Industry</b>		<b>3</b>	<b>94,434</b>			<b>60,184,115</b>	<b>3,064,090</b>	
Mining			3			3,691,615	100,971	
Production			1,256			31,635,707	2,923,208	
Electricity, gas, and water		3	93,175			24,856,793	39,911	
<b>Construction</b>			<b>5,439</b>			<b>18,390,609</b>	<b>1,825,101</b>	
<b>Services</b>	<b>19,782,183</b>		<b>158,974</b>	<b>4,906</b>		<b>12,519,917</b>	<b>62,062,667</b>	<b>12,903,876</b>
Wholesale and Retail Trade			126			24,744,068	6,954,687	
Hotel, Food and Beverage Services			63			3,567,835	551,495	
Transportation and Telecommunication			523			13,625,264	2,806,418	
Financial Institutions	19,781,979		2,089	4,906		12,519,917	4,558,338	133,188
Real Estate and Renting Services			57,925			10,999,478	1,005,634	
Self-Employment Services			95,359			1,859,977	1,074,134	
Education Services	204		2,172			805,995	128,351	
Health and Social Services			717			1,901,712	249,969	
<b>Other</b>	<b>61,032,259</b>	<b>49,856</b>	<b>8,451</b>			<b>5,969</b>	<b>1,469,903</b>	<b>32,474,944</b>
<b>Total</b>	<b>80,814,442</b>	<b>51,239</b>	<b>268,636</b>	<b>4,906</b>		<b>12,525,886</b>	<b>143,264,225</b>	<b>50,976,248</b>

<sup>(1)</sup> Contingent and non-contingent exposures to central governments or central banks<sup>(2)</sup> Contingent and non-contingent exposures to regional governments or local authorities<sup>(3)</sup> Contingent and non-contingent exposures to administrative bodies and non-commercial undertakings<sup>(4)</sup> Contingent and non-contingent exposures to multilateral development banks<sup>(5)</sup> Contingent and non-contingent exposures to international organizations<sup>(6)</sup> Contingent and non-contingent exposures to banks and brokerage houses<sup>(7)</sup> Contingent and non-contingent corporate receivables<sup>(8)</sup> Contingent and non-contingent retail receivables<sup>(9)</sup> Contingent and non-contingent exposures secured by real estate property<sup>(10)</sup> Past due receivables<sup>(11)</sup> Receivables in regulatory high-risk categories<sup>(12)</sup> Other receivables<sup>(13)</sup> Share Certificate Investments<sup>(14)</sup> Risk amounts after the credit conversions and the effects of credit risk mitigation

Current Period								
Bank								
(9)	(10)	(11)	(12)	(13)	TL	FC	Total	
578,220	12,234	3,320			2,064,638	397,022	2,461,660	
284,532	10,750	2,796			1,916,529	92,748	2,009,277	
17,508	968	399			113,309	2,889	116,198	
276,180	516	125			34,800	301,385	336,185	
<b>6,621,222</b>	<b>226,417</b>	<b>32,100</b>			<b>18,432,871</b>	<b>51,789,510</b>	<b>70,222,381</b>	
97,170	6,398	806			606,713	3,290,250	3,896,963	
6,054,797	218,280	30,974			14,618,991	26,245,231	40,864,222	
469,255	1,739	320			3,207,167	22,254,029	25,461,196	
<b>4,133,903</b>	<b>109,601</b>	<b>46,260</b>			<b>12,386,504</b>	<b>12,124,409</b>	<b>24,510,913</b>	
<b>16,676,393</b>	<b>398,846</b>	<b>53,539</b>	<b>4,238,389</b>	<b>9,508,722</b>	<b>67,111,751</b>	<b>71,196,661</b>	<b>138,308,412</b>	
7,505,885	268,920	34,969			27,639,893	11,868,762	39,508,655	
2,241,522	17,595	1,559			2,179,122	4,200,947	6,380,069	
1,523,034	31,275	3,339		4,021,670	10,761,612	11,249,911	22,011,523	
353,574	1,153	453	4,238,389	4,851,677	14,400,620	32,045,043	46,445,663	
3,105,244	35,782	2,668		621,937	6,078,860	9,749,808	15,828,668	
1,308,063	26,602	9,584		13,438	4,044,541	342,616	4,387,157	
249,259	10,130	297			865,178	331,230	1,196,408	
389,812	7,389	670			1,141,925	1,408,344	2,550,269	
<b>11,449,332</b>	<b>366,300</b>	<b>2,013</b>	<b>5,477,363</b>	<b>1,058,951</b>	<b>93,199,478</b>	<b>20,195,863</b>	<b>113,395,341</b>	
<b>39,459,070</b>	<b>1,113,398</b>	<b>137,232</b>	<b>9,715,752</b>	<b>10,567,673</b>	<b>193,195,242</b>	<b>155,703,465</b>	<b>348,898,707</b>	

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## 14. Analysis of maturity-bearing exposures according to remaining maturities:

Risk Groups <sup>(1)</sup>	Time to Maturity					Total
	1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year	
Contingent and Non-Contingent Receivables from Central Governments or Central Banks	517,486	1,797,826	180,853	4,535,215	44,336,114	51,367,494
Contingent and Non-Contingent Receivables from Regional Governments or Domestic Governments	1,505	3,043	3,271	9,351	30,232	47,402
Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	14,428	26,840	34,303	27,759	136,095	239,425
The multilateral development banks and non-contingent receivables		4,731		175		4,906
Contingent and Non-Contingent Receivables from Banks and Intermediaries	3,407,184	429,252	554,657	1,408,551	4,460,184	10,259,828
Contingent and Non-Contingent Corporate Receivables	9,636,261	16,892,698	14,532,360	19,774,380	78,417,226	139,252,925
Contingent and Non-Contingent Retail Receivables	11,883,514	3,559,530	3,421,160	8,900,718	19,066,369	46,831,291
Contingent and Non-Contingent Collateralized Receivables with Real Estate Mortgages	1,618,511	2,529,697	1,978,849	4,904,651	24,394,715	35,426,423
Receivables are identified as High Risk by the Board	5,153	4,987	12,046	11,631	50,161	83,978
<b>Total</b>	<b>27,084,042</b>	<b>25,248,604</b>	<b>20,717,499</b>	<b>39,572,431</b>	<b>170,891,096</b>	<b>283,513,672</b>

<sup>(1)</sup> The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

## 15. Information on Risk Classes

In the calculation of the amount subject to credit risk, determining the risk weights related to risk classes stated on the sixth article of "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", is based on the Fitch Ratings' international rating with the Banking Regulation and Supervision Board's decision numbered 4577 dated 10 February 2012. While receivables from resident banks in abroad which is assessed in the risk class of "Contingent and Non-Contingent Receivables from Banks and Brokerage Agencies" and receivables from central governments which is assessed in the risk class of "Contingent and Non-Contingent Receivables from Central Governments or Central Banks" will be subjected to risk weights with the scope of ratings; therefore domestic resident banks accepted as unrated, the risk weight is applied according to receivables from relevant banks, type of exchange and original maturity.

If a receivable-specific rating is performed, risk weights to be applied on the receivable are determined by the relevant credit rating.

The table related to mapping the ratings used in the calculations and credit quality grades, which is stated in the Annex of Regulation on Measurement and Evaluation of Capital Adequacy of Banks, is given below:

Credit Quality Grades	1	2	3	4	5	6
Risk Rating	AAA via AA-	A+ via A-	BBB+ via BBB-	BB+ via BB-	B+ via B-	CCC+ and lower

There is no credit export agency has been assigned for the items that are not included to trading accounts.

Risk Weight	0%	20%	35%	50%	75%	100%	150%	200%	Mitigation in Shareholders' Equity
Amount Before Credit Risk Mitigation <sup>(1)</sup>	46,770,539	4,733,036	16,789,746	61,051,947	51,381,011	176,873,371	86,292	640,474	486,533
Amount After Credit Risk Mitigation	46,770,539	4,726,704	16,789,746	61,046,995	50,976,248	167,861,750	86,251	640,474	486,533

<sup>(1)</sup> The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### 16. Miscellaneous Information According to Type of Counterparty or Major Sectors

	Significant Sectors/Counterparty	Loans			Provisions <sup>(3)</sup>
		Impaired	Non-Performing <sup>(1)</sup>	Value Adjustment <sup>(2)</sup>	
1	Agricultural	68,165	11,134	1,223	55,931
1.1	Farming and Raising Livestock	59,777	10,877	1,165	49,027
1.2	Forestry	6,799	146	40	5,831
1.3	Fishing	1,589	111	18	1,073
2	Industry	984,125	74,773	7,164	757,708
2.1	Mining	77,524	2,036	310	71,126
2.2	Production	890,985	72,420	6,772	672,705
2.3	Electricity, gas, and water	15,616	317	82	13,877
3	Construction	593,157	40,787	5,669	483,556
4	Services	1,650,193	113,323	25,018	1,251,347
4.1	Wholesale and Retail Trade	1,115,134	57,124	11,604	846,214
4.2	Hotel, Food and Beverage Services	164,440	12,753	2,434	146,845
4.3	Transportation and Telecommunication	116,659	25,412	6,627	85,384
4.4	Financial Institutions	11,631	1,360	136	10,478
4.5	Real Estate and Renting Services	121,381	9,503	2,284	85,599
4.6	Self-Employment Services	80,079	3,494	833	53,477
4.7	Education Services	20,760	1,767	509	10,630
4.8	Health and Social Services	20,109	1,910	591	12,720
5	Other	1,648,715	386,188	40,273	1,282,415
6	<b>Total</b>	<b>4,944,355</b>	<b>626,205</b>	<b>79,347</b>	<b>3,830,957</b>

<sup>(1)</sup> Refers to loans that are classified as closely monitored and overdue 31-90 days. Related items represent only overdue amounts of installment based commercial loans and installment based consumer loans. The principal amounts of these loans which are not due as of the balance sheet date are equal to TL 766,380 and TL 573,419 respectively. The balance of the loans that are classified as closely monitored although they are not past due or past due for less than 31 days is TL 4,258,881.

<sup>(2)</sup> Refers to the general provisions for non-performing loans by taking into account the amount which are not past due of these loans.

<sup>(3)</sup> Refers to specific provision for impaired loans.

#### 17. Information on Value Adjustments and Change in Credit Provisions:

	Beginning Balance	Provisions	Reversal of Provisions	Other Value Adjustment	Ending Balance
Specific Provisions	2,706,553	1,994,179	(869,775)		3,830,957
General Provisions	2,851,829	251,680	(29,648)		3,073,861

#### 18. Exposures Subject to Countercyclical Capital Buffer

Country	RWA Calculations for Private Sector Loans in Banking Book	RWA calculations for Trading Book	Total
Turkey	197,699,372	251,154	197,950,526
TRNC-Turkish Republic of Northern Cyprus	1,138,563		1,138,563
Germany	602,298		602,298
Albania	399,876		399,876
Malta	333,160		333,160
Iraq	311,608		311,608
Russia	271,874		271,874
United States	224,982		224,982
England	220,863		220,863
Georgia	173,210		173,210
Other	554,762		554,762

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## III. Explanations on Currency Risk

Foreign currency position risk for the Bank is a result of the difference between the Bank's assets denominated in foreign currencies and indexed to foreign currencies and liabilities denominated in foreign currencies. Furthermore, parity fluctuations of different foreign currencies are another element of the currency risk.

The currency risk is managed by the internal currency risk limits which are established as a part of the Bank's risk policies. The Assets and Liabilities Committee and the Assets and Liabilities Management Unit meet regularly to take the necessary decisions for hedging exchange rate and parity risks within the framework of the limits determined by the "Net Foreign Currency Overall Position/Shareholders' Equity" ratio which is a part of the legal requirement and limits specified by the Board of Directors. Foreign exchange risk management decisions are strictly applied.

In measuring currency risk, both the Standard Method and the Value at Risk Model (VAR) are used as applied in the statutory reporting.

Measurements made within the scope of the Standard Method are carried out on a monthly basis and form the basis of determining the capital requirement for hedging currency risk.

Risk measurements made within the context of the VAR are practiced on a daily basis using the historical and Monte Carlo simulation methods. Scenario analyses are conducted to support the calculations made within the VAR context.

The results of the measurements made on currency risk are reported to the Top Management and the risks are closely monitored by taking into account the market and the economic conditions.

The Bank's foreign currency purchase rates at the date of balance sheet and for the last five working days of the period announced by the Bank in TL are as follows:

Date	USD	EUR
31.12.2016	3.4900	3.6820
30.12.2016	3.4900	3.6820
29.12.2016	3.4845	3.6521
28.12.2016	3.5090	3.6459
27.12.2016	3.4874	3.6457
26.12.2016	3.4735	3.6347

The Bank's last 30-days arithmetical average foreign currency purchase rates:

USD: TL 3.4516      EUR: TL 3.6344

## Sensitivity to currency risk:

The Bank's sensitivity to any potential change in foreign currency rates has been analyzed. In the analysis presented below 10% change, which is also the amount used for the internal reporting purposes, is anticipated in USD, EUR, CHF and JPY.

	% Change in Foreign Currency	Effects on Profit/Loss <sup>(1)</sup>	
		Current Period	Prior Period
USD	10% increase	(38,520)	318,733
	10% decrease	38,520	(318,733)
EUR	10% increase	(423,478)	(395,252)
	10% decrease	423,478	395,252
CHF	10% increase	(12,432)	(40,002)
	10% decrease	12,432	40,002
JPY	10% increase	(32,776)	(4,659)
	10% decrease	32,776	4,659

<sup>(1)</sup> Indicates the values before tax.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### Information on currency risk:

Current Period	EUR	USD	Other FC	Total
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	6,579,141	15,394,199	4,337,278	26,310,618
Banks	1,042,363	556,515	447,220	2,046,098
Financial Assets at Fair Value through Profit/Loss <sup>(1)</sup>	191,763	1,392,394		1,584,157
Money Market Placements				
Financial Assets Available for Sale	783,040	10,674,643		11,457,683
Loans <sup>(2)</sup>	29,869,960	55,594,876	2,091,911	87,556,747
Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)	285,945		270,594	556,539
Held to Maturity Investments	47,884	58,266	87,558	193,708
Derivative Financial Assets Held for Risk Management				
Tangible Assets <sup>(1)</sup>	1,103	234	1,168	2,505
Intangible Assets <sup>(1)</sup>				
Other Assets <sup>(1)</sup>	327,742	704,559	17,282	1,049,583
<b>Total Assets</b>	<b>39,128,941</b>	<b>84,375,686</b>	<b>7,253,011</b>	<b>130,757,638</b>
<b>Liabilities</b>				
Banks Deposits	1,500,531	3,254,951	868,280	5,623,762
Foreign Currency Deposits <sup>(3)</sup>	25,944,869	49,984,096	7,042,683	82,971,648
Money Market Funds	476,721	2,743,764		3,220,485
Funds Provided from Other Financial Institutions	8,081,799	21,616,184	4,627	29,702,610
Debt Securities Issued <sup>(4)</sup>	121,832	22,078,684	12,323	22,212,839
Miscellaneous Payables	596,318	289,675	117,190	1,003,183
Derivative Financial Liabilities Held for Risk Management				
Other Liabilities <sup>(1)</sup>	351,056	702,984	49,697	1,103,737
<b>Total Liabilities</b>	<b>37,073,126</b>	<b>100,670,338</b>	<b>8,094,800</b>	<b>145,838,264</b>
<b>Net Balance Sheet Position</b>	<b>2,055,815</b>	<b>(16,294,652)</b>	<b>(841,789)</b>	<b>(15,080,626)</b>
<b>Net Off Balance Sheet Position</b>	<b>(6,275,998)</b>	<b>16,671,243</b>	<b>613,821</b>	<b>11,009,066</b>
Derivative Financial Assets <sup>(5)</sup>	3,129,547	24,471,181	3,900,535	31,501,263
Derivative Financial Liabilities <sup>(5)</sup>	9,405,545	7,799,938	3,286,714	20,492,197
Non-Cash Loans	13,665,535	25,187,804	2,721,129	41,574,468
<b>Prior Period</b>				
<b>Total Assets</b>	<b>28,320,089</b>	<b>75,394,097</b>	<b>8,103,729</b>	<b>111,817,915</b>
<b>Total Liabilities</b>	<b>35,622,264</b>	<b>86,289,395</b>	<b>6,379,468</b>	<b>128,291,127</b>
<b>Net Balance Sheet Position</b>	<b>(7,302,175)</b>	<b>(10,895,298)</b>	<b>1,724,261</b>	<b>(16,473,212)</b>
<b>Net Off Balance Sheet Position</b>	<b>3,025,376</b>	<b>13,256,177</b>	<b>(2,145,684)</b>	<b>14,135,869</b>
Derivative Financial Assets	6,740,759	24,526,672	2,426,212	33,693,643
Derivative Financial Liabilities	3,715,383	11,270,495	4,571,896	19,557,774
Non-Cash Loans	8,515,440	20,770,670	1,173,431	30,459,541

<sup>(1)</sup> In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position/Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", Foreign Currency Income Accruals of Derivative Financial Instruments (TL 358,928), Operating Lease Development Costs (TL 6,362), Intangible assets (TL 337), Deferred Tax Asset (TL 112,252), Prepaid Expenses (TL 56,196) in assets and Foreign Currency Expense Accruals of Derivative Financial Instruments (TL 207,205), General Provision (TL 8,168) and Shareholders' Equity (TL 560,452) in liabilities are not included.

<sup>(2)</sup> Foreign currency indexed loans amounting TL 6,743,949 presented in TL loans in the balance sheet are included in the table above. TL 3,380,915 is USD indexed, TL 3,339,133 is EUR indexed, TL 5,949 is CHF indexed, TL 5,019 is GBP indexed, TL 12,918 is JPY indexed and TL 15 is CAD indexed.

<sup>(3)</sup> Precious metals deposit accounts amounting TL 2,832,828 are included.

<sup>(4)</sup> Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

<sup>(5)</sup> Located in the Regulation mentioned above and forward foreign exchange purchase and sale commitments are taken into account derivative instruments within the scope of the definition.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## IV. Explanations on Interest Rate Risk

Interest rate risk is the risk that the value of the Bank's interest sensitive assets, liabilities and off-balance sheet operations will decrease because of change in market interest rates. The method of average maturity gap according to the repricing dates is used for measuring the interest rate risk arising from the banking accounts, whereas the interest rate risk related to interest sensitive financial instruments followed under trading accounts is assessed within the scope of market risk.

Potential effects of interest rate risk on the Bank's assets and liabilities, market developments, the general economic environment and expectations are regularly followed in meetings of the Asset-Liability Committee, where further measures to reduce risk are taken when necessary.

The Bank's on and off-balance sheet interest sensitive accounts other than the assets and liabilities exposed to market risk are monitored and controlled by the limits above the average maturity gaps according to the repricing periods determined by the Board within the scope of asset-liability management risk policy. Moreover, scenario analyses formed in line with the historical data and expectations are also used in the management of the related risk.

## Interest rate sensitivity:

In this part, the sensitivity of the Bank's assets and liabilities to the interest rates has been analyzed assuming that the year end balance figures were the same throughout the year. Mentioned analysis shows how the FC and TL changes in interest rates by one point during the one-year period affect the Bank's income accounts and shareholders' equity under the assumption maturity structure and balances are remain the same all year round at the end of the year.

During the measurement of the Bank's interest rate sensitivity, the profit/loss on the asset and liability items that are evaluated with market value are determined by adding to/deducting from the difference between the expectancy value of the portfolio after one year in case there is no change in interest rates and the value of the portfolio one year later, which is measured after the interest shock, the interest income to be additionally earned/to be deprived of during the one year period due to the renewal or repricing of the related portfolio at the interest rates formed after the interest shock.

On the other hand, in the profit/loss calculation of assets and liabilities that are not evaluated by the current market prices, it is assumed that assets and liabilities with fixed interest rates will be renewed at maturity date and the assets and liabilities having variable interest rates will be renewed at the end of repricing period with the market interest rates generated after the interest shock.

Within this context, ceteris paribus, the possible changes that may occur in the Bank's profit and shareholders' equity in case of 100 basis point increase/decrease in TL and FC interest rates on the reporting day are given below:

% Change in the Interest Rate <sup>(1)</sup>		Effect On Profit/Loss <sup>(2)</sup>		Effect on Equity <sup>(3)</sup>	
TL	FC <sup>(4)</sup>	Current Period	Prior Period	Current Period	Prior Period
100 bp increase	100 bp increase	68,023	(105,340)	(694,940)	(693,101)
100 bp decrease	100 bp decrease	(83,395)	128,356	763,838	760,826

<sup>(1)</sup> Changes in interest rates is calculated assuming that the expectations reflected in inflation. The effects on the profit/loss and shareholders' equity are stated with their before tax values.

<sup>(2)</sup> The effect on the profit/loss is mainly arising from the fact that the average maturity of the Bank's fixed rate liabilities is shorter than the average maturity of its fixed rate assets.

<sup>(3)</sup> The effect on the shareholders' equity is arising from the change of the fair value of securities followed under Financial Assets Available for Sale.

<sup>(4)</sup> Due to the reason that the LIBOR rates were at low levels in both of the periods, the negative shock imposed on FC interest rates in some maturity brackets remained below the aforementioned rates.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### a. Interest rate sensitivity of assets, liabilities and off balance sheet items (Based on repricing dates):

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest Bearing	Total
<b>Current Period</b>							
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	19,673,529					12,753,099	32,426,628
Banks	756,247	51,539	29,885	93,567	40,462	1,257,380	2,229,080
Financial Assets at Fair Value through Profit/Loss	670,744	630,038	788,716	232,528	51,257	211,684	2,584,967
Money Market Placements							
Financial Assets Available for Sale	4,466,986	7,832,064	9,093,481	12,190,182	11,565,796	178,401	45,326,910
Loans	49,488,661	22,613,959	43,316,477	68,597,524	20,239,889	733	204,257,243
Held to Maturity Investments	2,909,839	75,765	1,904,122	162,876	304,738		5,357,340
Other Assets	247,601					19,196,144	19,443,745
<b>Total Assets</b>	<b>78,213,607</b>	<b>31,203,365</b>	<b>55,132,681</b>	<b>81,276,677</b>	<b>32,202,142</b>	<b>33,597,441</b>	<b>311,625,913</b>
<b>Liabilities</b>							
Banks Deposits	2,088,614	1,059,921	587,718			2,726,093	6,462,346
Other Deposits	96,789,403	20,228,016	10,321,160	2,686,211		40,872,840	170,897,630
Money Market Funds	19,334,005	240,940	1,017,890				20,592,835
Miscellaneous Payables	633,109					7,969,397	8,602,506
Marketable Securities Issued <sup>(1)</sup>	1,526,760	1,550,961	4,223,514	13,048,077	7,045,905		27,395,217
Funds Provided from Other Financial Institutions	2,101,777	16,400,401	10,014,035	641,950	1,726,534		30,884,697
Other Liabilities <sup>(2)</sup>	348,256	108,978	271,335	78,535		45,983,578	46,790,682
<b>Total Liabilities</b>	<b>122,821,924</b>	<b>39,589,217</b>	<b>26,435,652</b>	<b>16,454,773</b>	<b>8,772,439</b>	<b>97,551,908</b>	<b>311,625,913</b>
Balance Sheet Long Position			28,697,029	64,821,904	23,429,703		116,948,636
Balance Sheet Short Position	(44,608,317)	(8,385,852)				(63,954,467)	(116,948,636)
Off Balance Sheet Long Position	2,677,140	3,953,300					6,630,440
Off Balance Sheet Short Position			(240,084)	(2,525,980)	(2,965,686)		(5,731,750)
<b>Total Position</b>	<b>(41,931,177)</b>	<b>(4,432,552)</b>	<b>28,456,945</b>	<b>62,295,924</b>	<b>20,464,017</b>	<b>(63,954,467)</b>	<b>898,690</b>

<sup>(1)</sup> Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

<sup>(2)</sup> Total amount of equity is represented in "non-interest bearing" column.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## Interest rate sensitivity of assets, liabilities and off balance sheet items (Based on repricing periods):

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest Bearing	Total
<b>Prior Period</b>							
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	19,281,837					12,370,688	31,652,525
Banks	559,516	141,495	72,691	13,804	59,449	670,546	1,517,501
Financial Assets at Fair Value through Profit/Loss	408,093	326,874	615,664	173,515	10,524	57,628	1,592,298
Money Market Placements							
Financial Assets Available for Sale	4,072,416	6,903,823	8,314,485	11,046,441	10,183,591	339,604	40,860,360
Loans	41,875,386	20,973,748	36,666,950	60,952,248	17,420,782	44,642	177,933,756
Held to Maturity Investments	1,633,406	161,270	1,784,823	12,132			3,591,631
Other Assets	377,760					18,191,753	18,569,513
<b>Total Assets</b>	<b>68,208,414</b>	<b>28,507,210</b>	<b>47,454,613</b>	<b>72,198,140</b>	<b>27,674,346</b>	<b>31,674,861</b>	<b>275,717,584</b>
<b>Liabilities</b>							
Banks Deposits	3,954,293	1,143,285	1,741,926			874,677	7,714,181
Other Deposits	73,645,321	27,867,558	8,048,877	2,723,943		33,802,546	146,088,245
Money Market Funds	18,582,117	547,128	959,902				20,089,147
Miscellaneous Payables	81,852					6,768,529	6,850,381
Marketable Securities Issued <sup>(1)</sup>	2,180,419	4,007,423	3,670,676	7,775,296	6,174,448		23,808,262
Funds Provided from Other Financial Institutions	2,768,416	18,551,447	5,115,717	279,506	1,693,413		28,408,499
Other Liabilities <sup>(2)</sup>	358,135	213,334	289,413	75,013		41,822,974	42,758,869
<b>Total Liabilities</b>	<b>101,570,553</b>	<b>52,330,175</b>	<b>19,826,511</b>	<b>10,853,758</b>	<b>7,867,861</b>	<b>83,268,726</b>	<b>275,717,584</b>
Balance Sheet Long Position			27,628,102	61,344,382	19,806,485		108,778,969
Balance Sheet Short Position	(33,362,139)	(23,822,965)				(51,593,865)	(108,778,969)
Off Balance Sheet Long Position	1,752,316	2,988,250					4,740,566
Off Balance Sheet Short Position			(1,601,985)	(1,366,648)	(1,432,500)		(4,401,133)
<b>Total Position</b>	<b>(31,609,823)</b>	<b>(20,834,715)</b>	<b>26,026,117</b>	<b>59,977,734</b>	<b>18,373,985</b>	<b>(51,593,865)</b>	<b>339,433</b>

<sup>(1)</sup> Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

<sup>(2)</sup> Shareholders' equity is included in "non-interest bearing" column.

## b. Average interest rates applied to monetary financial instruments:

	EUR	USD	JPY	TL
	%	%	%	%
<b>Current Period</b>				
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey		0.75		5.31
Banks	0.17	2.34		6.43
Financial Assets at Fair Value through Profit/Loss	1.78	5.90		9.60
Money Market Placements				
Financial Assets Available for Sale	3.94	4.22		9.06
Loans	4.25	5.60		13.80
Held to Maturity Investments	1.28	0.70		9.06
<b>Liabilities</b>				
Banks Deposits	0.51	1.51		10.03
Other Deposits	0.73	1.73	0.69	7.48
Money Market Funds	0.42	2.41		8.31
Miscellaneous Payables				
Debt Securities Issued <sup>(1)</sup>	0.39	5.22		9.47
Funds Provided from Other Financial Institutions	0.88	2.52		9.53

<sup>(1)</sup> Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

Prior Period	EUR	USD	JPY	TL
	%	%	%	%
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey		0.49		3.81
Banks	0.59	2.01		5.00
Financial Assets at Fair Value through Profit/Loss	1.67	5.20		11.77
Money Market Placements				
Financial Assets Available for Sale	4.14	4.13		9.08
Loans	4.20	5.05	3.33	13.31
Held to Maturity Investments	1.74	0.68		9.43
<b>Liabilities</b>				
Banks Deposits	1.00	1.45		11.22
Other Deposits	0.93	1.44	0.19	7.96
Money Market Funds	1.45	1.47		9.33
Miscellaneous Payables				
Debt Securities Issued <sup>(1)</sup>	0.87	4.99	0.87	10.62
Funds Provided from Other Financial Institutions	0.92	2.14		10.97

<sup>(1)</sup> Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

#### V. Explanations on Equity Shares Risk Arising from Banking Book

a. Related to the equity investments account practices about the associates and subsidiaries can be seen in the Third Section Note III.

b. Balance Sheet Value of Equity Investment, fair value, and for publicly traded, if the market value is different from the fair value comparison to the market price:

Share Certificate Investments	Comparison		
	Book Value	Fair Value	Market Value
<b>Quoted</b>			
<b>Stock Investment Group A</b>			
Subsidiaries			
Financial Subsidiaries	3,564,407		3,564,407
Non-Financial Subsidiaries	5,102,945		5,102,945
<b>Non-Quoted</b>			
Associate and Subsidiaries			
Financial Subsidiaries	124,575		
Non-Financial Subsidiaries	3,671		
Subsidiaries			
Financial Subsidiaries	1,040,271		
Non-Financial Subsidiaries	606,528		

c. Unrealized gains and losses on investment in stocks, Revaluation increases with the amounts of additives included in the main and capital

Portfolio	Realized Gains/losses During the period	Revaluation Increases		Unrealized Gains	
		Total	Including to the Capital Contribution	Total	Including in to the main capital
Private Equity Investments					
Shares Traded on a Stock Exchange				4,862,143	4,862,143
Other Stocks					
<b>Total</b>				<b>4,862,143</b>	<b>4,862,143</b>

d. Capital requirement as per equity shares:

Portfolio	Carrying Value	Total RWA	Minimum Capital Requirement <sup>(1)</sup>
Private Equity Investments			
Share Traded on a Stock Exchange	8,667,352	8,667,352	693,388
Other Stocks	1,775,045	1,961,908	156,953
<b>Total</b>	<b>10,442,397</b>	<b>10,629,260</b>	<b>850,341</b>

<sup>(1)</sup> Is calculated by using the standard method found in the "Regulation on Measurement and Evaluation of Capital Adequacy Ratio of Banks"

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## VI. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio

Liquidity risk may occur as a result of funding long-term assets with short-term liabilities. The Bank's liquidity is managed by the Asset-Liability Management Committee in accordance with the business strategies, legal requirements, current market conditions and expectations regarding the economic and financial conjuncture.

The Bank's principal source of funding is deposits. Although the average maturity of deposits is shorter than that of assets as a result of the market conditions, the Bank's wide network of branches and stable core deposit base are its most important safeguards of funding. Additionally, the Bank borrows medium and long-term funds from institutions abroad. Concentration limits are generally used in deposit and non-deposit borrowings in order to prevent adverse effects of concentrations in the liquidity risk profile of the Bank.

In order to meet the liquidity requirements that may arise from market fluctuations, considerable attention is paid to the need to preserve liquid liquidity and efforts in this respect are supported by projections of Turkish Lira and Foreign Currency (FC) cash flows. The term structure of TL and FC deposits, their costs and amounts are monitored on a daily basis. During these studies historical events and future expectations are taken into account as well. Based upon cash flow projections, prices are differentiated for different maturities and measures are taken accordingly to meet liquidity requirements. Moreover, potential alternative sources of liquidity are determined to be used in case of extraordinary circumstances.

The liquidity risk exposure of the Bank has to be within the risk capacity limits which are prescribed by the legislation and the Bank's risk appetite defined in its business strategy. It is essential for the Bank to have an adequate level of unencumbered liquid asset stock which can be sold or pledged, in case a large amount of reduction in liquidity sources occurs. The level of liquid asset buffer is determined in accordance with the liquidity risk tolerance which is set by the Board of Directors. Asset-Liability Management Committee is responsible for monitoring the liquidity position, determining appropriate sources of funds and deciding the maturity structure in accordance with the limits which are set by the Board of Directors.

The Treasury Division is responsible for monitoring the liquidity risk, in accordance with the Asset and Liability Risk Policy limits, objectives set out in the business plan and the decisions taken at the meetings of Asset-Liability Management Committee. The Treasury Division is also responsible for making liquidity projections and taking necessary precautions to reduce liquidity risk, by using the results of stress testing and scenario analysis.

Within this scope, Treasury Division is monitoring the Turkish Lira (TL) and foreign currency (FC) liquidity position instantly and prospectively based on the information provided from the branches, business units and IT infrastructure of the Bank. The assessment of long-term borrowing opportunities is carried out regularly in order to balance the cash inflows and outflows and to mitigate the liquidity risk. The Bank creates liquidity through repurchase agreements and secured borrowings based on the high quality liquid asset portfolio, through securitization and other structured finance products which are created from the asset pools like credit card receivables and retail loans.

The Bank applies liquidity stress tests to measure liquidity risk. These liquidity stress tests reveal the Bank's liquid assets' ability to cover cash outflows within one-month-horizon. Liquidity adequacy limits for TL and FC are determined by Board of Directors, based on the liquidity requirements and risk tolerance of the Bank. The liquidity risk is measured by the Risk Management Division and results are reported to the related executive functions, senior management and Board of Directors.

It is essential for the Bank to monitor the liquidity position and funding strategy continuously. In case of a liquidity crisis that may arise from unfavorable market conditions, extraordinary macroeconomic situations and other reasons which are beyond the control of the Bank, "Emergency Action and Funding Plan" is expected to be commissioned. In that case, aforementioned committees have to report the precautions taken and their results to the Board of Directors through Audit Committee.

The Bank's Foreign Currency (FC) and total (TL+FC) liquidity coverage ratio (LCR) averages for the last three months, the highest value and the lowest value occurred in this period are given below:

	Current Period		Prior Period	
	TL+FC	FC	TL+FC	FC
<b>The lowest value</b>	92.75	109.44	103.48	162.29
<b>Applicable week</b>	02.12.2016	16.12.2016	28.12.2015	28.12.2015
<b>The highest value</b>	107.22	131.93	115.18	239.98
<b>Applicable week</b>	30.12.2016	30.12.2016	19.10.2015	02.11.2015

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### Liquidity Coverage Ratio:

Current Period	Total Unweighted Value		Total Weighted Value	
	TL+FC	FC	TL+FC	FC
<b>High Quality Liquid Assets</b>				
High Quality Liquid Assets			42,974,046	20,781,627
<b>Cash Outflows</b>				
Retail and Small Business Customers, of which;	119,381,878	53,106,811	10,349,952	5,310,681
Stable deposits	31,764,722		1,588,236	
Less stable deposits	87,617,156	53,106,811	8,761,716	5,310,681
Unsecured wholesale funding, of which;	48,772,166	21,041,630	28,330,895	12,573,147
Operational deposits	574,047	4,634	143,512	1,159
Non-operational deposits	37,344,476	19,525,491	20,947,765	11,121,484
Other unsecured funding	10,853,643	1,511,505	7,239,618	1,450,504
Secured funding				
Other cash outflows, of which;	24,366,805	17,920,924	24,366,805	17,920,924
Derivatives cash outflows and liquidity needs related to market valuation changes on derivatives or other transactions	24,366,805	17,920,924	24,366,805	17,920,924
Obligations related to structured financial products				
Commitments related to debts to financial markets and other off-balance sheet obligations				
Other revocable off-balance sheet commitments and contractual obligations	6,264,020	6,082,072	313,201	304,104
Other irrevocable or conditionally revocable off-balance sheet obligations	95,341,972	40,822,314	8,705,169	3,724,788
<b>Total Cash Outflows</b>			72,066,022	39,833,644
<b>Cash Inflows</b>				
Secured lending				
Unsecured lending	11,900,537	3,377,348	7,090,144	2,628,756
Other cash inflows	22,025,296	19,663,180	22,025,296	19,663,180
<b>Total Cash Inflows</b>	33,925,833	23,040,528	29,115,440	22,291,936
			<b>Total Adjusted Value</b>	
<b>Total HQLA Stock</b>			42,974,046	20,781,627
<b>Total Net Cash Outflows</b>			42,950,582	17,541,708
<b>Liquidity Coverage Ratio (%)</b>			99.52	119.13
<b>Prior Period</b>				
<b>High Quality Liquid Assets</b>				
High Quality Liquid Assets			39,351,442	25,961,320
<b>Cash Outflows</b>				
Retail and Small Business Customers, of which;	105,758,034	49,945,637	8,217,339	4,030,814
Stable deposits	47,169,288	19,274,987	2,358,464	963,749
Less stable deposits	58,588,746	30,670,650	5,858,875	3,067,065
Unsecured funding, of which;	42,121,545	21,752,902	23,574,414	12,459,606
Operational deposits	609,644	4,138	152,411	1,035
Non-operational deposits	34,277,136	20,934,986	19,103,010	11,704,402
Other unsecured funding	7,234,765	813,778	4,318,993	754,169
Secured funding				
Other cash outflows, of which;	26,314,697	17,452,211	26,314,697	17,452,211
Derivatives cash outflows and liquidity needs related to market valuation changes on derivative or other transactions	26,314,697	17,452,211	26,314,697	17,452,211
Obligations related to structured financial products				
Commitments related to debts to financial markets and other off-balance sheet obligations				
Other revocable off-balance sheet commitments and contractual obligations	8,155,741	7,948,635	407,787	397,432
Other irrevocable or conditionally revocable off-balance sheet obligations	95,046,083	34,485,819	8,257,064	3,043,643
<b>Other cash outflows</b>			66,771,301	37,383,706
<b>Cash Inflows</b>				
Secured lending				
Unsecured lending	11,799,218	4,407,163	7,329,582	3,533,106
Other cash inflows	23,236,412	20,910,744	23,236,412	20,910,744
<b>Total Cash Inflows</b>	35,035,630	25,317,907	30,565,994	24,443,850
			<b>Total Adjusted Value</b>	
<b>Total HQLA Stock</b>			39,351,442	25,961,320
<b>Total Net Cash Outflows</b>			36,205,307	12,943,790
<b>Liquidity Coverage Ratio (%)</b>			108.85	204.45

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

With respect to fourth quarter averages of the 2016, an increase in both the average liquidity coverage ratio and total ratios have been observed for the fourth quarter of 2016. The increase in foreign currency liquidity coverage ratio is mainly originated from the increase in foreign currency denominated cash inflows and the total liquidity coverage ratio has increased due to the significant increase in the stock of high quality liquid assets. Total and foreign currency liquidity coverage ratios are currently far above the minimum level (70% and 50% respectively in 2016).

The LCR which has been introduced to ensure banks to preserve sufficient stock of high quality assets to meet their net cash outflows that may occur in the short term is calculated as per the Communiqué on "Measurement and Assessment of the Liquidity Coverage Ratio of Banks" which is published by BRSA. The ratio is directly affected by the level of unencumbered high quality assets which can be liquidated at any time and net cash inflows and outflows arising from the Bank's assets, liabilities and off-balance sheet transactions.

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

The Bank's principal source of funding is deposits. In terms of non-deposit borrowing, funds received from repurchase agreements, marketable securities issued and funds borrowed from financial institutions are among the most significant funding sources of the Bank.

In order to manage liquidity effectively, concentration of liquidity sources and usages should be avoided. Due to the strong and stable core deposit base of the Bank, deposits are received from a diversified customer portfolio. In addition, in order to provide diversification in liquidity sources and usages, liquidity concentration limits are used effectively. Total amount of funds borrowed from a single counterparty or a risk group is closely and instantaneously monitored, taking liquidity concentration limits into account. Cash flows of derivatives that will take place within 30 days are taken into account in calculation of liquidity coverage ratio. Cash outflows of derivatives that arise from margin obligations, are reflected to the results in accordance with the methodology articulated in the related legislation.

Liquidity risk of the Bank, its foreign branches and subsidiaries that are to be consolidated are managed within the regulatory limits and in accordance with the group strategies. For the purposes of effectiveness and sustainability of liquidity management, funding sources of group companies and funding diversification opportunities in terms of markets, instruments and tenor are evaluated and liquidity position of the group companies are monitored continuously by the Bank.

#### Presentation of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Unallocated <sup>(1)</sup>	Total
<b>Current Period</b>								
<b>Assets</b>								
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	12,109,575	20,317,053						32,426,628
Banks	1,524,123	490,249	19,631	40,560	142,939	11,578		2,229,080
Financial Assets at Fair Value through Profit/Loss	163,106	665,992	611,278	790,609	302,227	51,755		2,584,967
Money Market Placements								
Financial Assets Available for Sale	325,681		791,588	4,322,009	19,831,598	20,056,034		45,326,910
Loans	19,322,060	17,025,127	14,807,525	48,158,690	80,350,629	23,479,814	1,113,398	204,257,243
Held to Maturity Investments		257,169	12,998	1,083,723	3,579,056	424,394		5,357,340
Other Assets		1,934,843	65,502		688,756		16,754,644	19,443,745
<b>Total Assets</b>	<b>33,444,545</b>	<b>40,690,433</b>	<b>16,308,522</b>	<b>54,395,591</b>	<b>104,895,205</b>	<b>44,023,575</b>	<b>17,868,042</b>	<b>311,625,913</b>
<b>Liabilities</b>								
Bank Deposits	2,726,093	2,088,614	1,059,921	587,718				6,462,346
Other Deposits	40,872,840	96,789,205	20,225,025	10,317,801	2,692,759			170,897,630
Funds Provided from Other Financial Institutions		628,127	3,406,470	14,890,850	7,852,728	4,106,522		30,884,697
Money Market Funds		18,893,499	140,562	787,866	770,908			20,592,835
Marketable Securities Issued <sup>(2)</sup>		1,526,760	1,550,961	4,223,514	13,048,077	7,045,905		27,395,217
Miscellaneous Payables		8,472,422	75,164	7,694	47,226			8,602,506
Other Liabilities		2,128,630	144,795	271,336	78,535		44,167,386	46,790,682
<b>Total Liabilities</b>	<b>43,598,933</b>	<b>130,527,257</b>	<b>26,602,898</b>	<b>31,086,779</b>	<b>24,490,233</b>	<b>11,152,427</b>	<b>44,167,386</b>	<b>311,625,913</b>
<b>Liquidity Gap</b>	<b>(10,154,388)</b>	<b>(89,836,824)</b>	<b>(10,294,376)</b>	<b>23,308,812</b>	<b>80,404,972</b>	<b>32,871,148</b>	<b>(26,299,344)</b>	
<b>Net Off Balance Sheet Position</b>								
Derivative Financial Assets		22,279,851	2,433,716	8,125,186	13,876,848	9,502,051		56,217,652
Derivative Financial Liabilities		22,380,804	2,317,983	8,007,977	13,053,565	9,502,051		55,262,380
<b>Non-cash Loans</b>	<b>34,052,597</b>	<b>1,197,497</b>	<b>5,118,102</b>	<b>14,809,270</b>	<b>5,934,605</b>	<b>2,498,209</b>		<b>63,610,280</b>
<b>Prior Period</b>								
Total Assets	26,507,231	41,969,134	13,832,169	42,821,671	90,405,258	43,297,249	16,884,872	275,717,584
Total Liabilities	34,683,265	107,799,610	37,192,635	28,794,564	17,916,509	9,623,007	39,707,994	275,717,584
<b>Liquidity Gap</b>	<b>(8,176,034)</b>	<b>(65,830,476)</b>	<b>(23,360,466)</b>	<b>14,027,107</b>	<b>72,488,749</b>	<b>33,674,242</b>	<b>(22,823,122)</b>	
<b>Net Off Balance Sheet Position</b>								
Derivative Financial Assets		53,971	53,246	(118,698)	201,552			190,071
Derivative Financial Liabilities		18,457,596	9,918,991	11,956,854	10,928,718	6,861,548		58,123,707
Derivative Financial Liabilities		18,403,625	9,865,745	12,075,552	10,727,166	6,861,548		57,933,636
<b>Non-cash Loans</b>	<b>23,832,827</b>	<b>1,921,394</b>	<b>4,593,432</b>	<b>12,338,558</b>	<b>6,041,198</b>	<b>1,913,457</b>		<b>50,640,866</b>

<sup>(1)</sup> Asset items, such as Tangible Assets, Subsidiaries and Associates, Office Supply Inventory, Prepaid Expenses and Non-Performing Loans, which are required for banking operations and which cannot be converted into cash in short-term, other liabilities such as Provisions which are not considered as payables and Shareholders' Equity, are shown in 'Unallocated'.

<sup>(2)</sup> Includes Tier 2 subordinated bond which are classified on the balance sheet as subordinated loans.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

In compliance with the TFRS 7, the following table indicates the maturities of the Bank's major financial assets and liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of collections and payments without discounting the assets and liabilities. The interest to be collected from and paid to the related assets and liabilities is included in the following table. Adjustments column shows the items that may cause possible cash flows in the following periods. The values of the related assets and liabilities registered in balance sheet do not include these amounts.

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total	Adjustments (-)	Balance Sheet Value
<b>Assets</b>									
Financial Assets Held for Trading	163,106	7,321	115,112	100,360	285,281	71,781	742,961	117,443	625,518
Banks	1,524,123	490,853	20,370	45,210	155,656	12,108	2,248,320	19,240	2,229,080
Financial Assets Available for Sale	325,681	329,670	1,450,564	5,546,170	29,129,085	31,870,992	68,652,162	23,325,252	45,326,910
Loans <sup>(1)</sup>	19,322,060	17,878,173	16,241,723	56,754,986	98,125,309	28,212,961	236,535,212	33,391,367	203,143,845
Investments Held to Maturity		329,055	26,171	1,332,871	4,597,025	501,872	6,786,994	1,429,654	5,357,340
<b>Liabilities</b>									
Deposits	43,598,933	99,119,082	21,480,581	11,069,019	2,779,008		178,046,623	686,647	177,359,976
Funds Provided from Other Financial Institutions		630,567	3,474,626	15,271,107	8,721,573	4,392,491	32,490,364	1,605,667	30,884,697
Money Market Funds		18,901,052	141,319	824,857	808,898		20,676,126	83,291	20,592,835
Marketable Securities Issued <sup>(2)</sup>		1,534,144	1,573,100	5,427,894	16,369,567	7,469,065	32,373,770	4,978,553	27,395,217

<sup>(1)</sup> Non-performing loans (Net) is not included in the table

<sup>(2)</sup> Includes subordinated bonds which are classified on the balance sheet as subordinated loans.

Prior Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total	Adjustments (-)	Balance Sheet Value
<b>Assets</b>									
Financial Assets Held for Trading	56,255	6,845	40,420	64,933	199,753	16,408	384,614	55,741	328,873
Banks	872,561	360,111	141,042	85,772	52,781	19,030	1,531,297	13,796	1,517,501
Financial Assets Available for Sale	464,005	739,898	669,355	2,729,044	26,404,193	31,424,540	62,431,035	21,570,675	40,860,360
Loans <sup>(1)</sup>	17,333,864	15,597,328	14,573,652	48,252,070	84,461,917	23,907,526	204,126,357	27,089,737	177,036,620
Investments Held to Maturity		142,109	18,759	383,411	1,635,220	2,764,771	4,944,270	1,352,639	3,591,631
<b>Liabilities</b>									
Deposits	34,683,265	77,761,823	29,287,280	9,974,163	2,727,548		154,434,079	631,653	153,802,426
Funds Provided from Other Financial Institutions		926,510	3,402,156	14,851,832	6,822,178	3,691,335	29,694,011	1,285,512	28,408,499
Money Market Funds		18,283,579	293,324	474,973	1,113,033		20,164,909	75,762	20,089,147
Marketable Securities Issued <sup>(2)</sup>		2,192,342	4,034,414	4,521,640	10,047,193	6,827,152	27,622,741	3,814,479	23,808,262

<sup>(1)</sup> Non-performing loans (Net) is not included in the table

<sup>(2)</sup> Includes subordinated bonds which are classified on the balance sheet as subordinated loans.

The following table shows the remaining maturities of non-cash loans of the Bank.

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Letters of Credit	2,281,517	483,567	2,994,749	5,999,862	422,800		12,182,495
Letters of Guarantee	31,624,878	622,676	1,625,067	7,185,698	5,295,621	1,485,833	47,839,773
Acceptances	143,720	91,254	498,056	1,623,710	205,554		2,562,294
Other	2,482		230		10,630	1,012,376	1,025,718
<b>Total</b>	<b>34,052,597</b>	<b>1,197,497</b>	<b>5,118,102</b>	<b>14,809,270</b>	<b>5,934,605</b>	<b>2,498,209</b>	<b>63,610,280</b>
Prior Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Letters of Credit	1,906,712	1,266,737	2,564,341	4,300,623	216,422		10,254,835
Letters of Guarantee	21,873,610	473,563	1,860,470	7,501,141	5,766,344	1,064,892	38,540,020
Acceptances	44,076	179,713	166,664	497,970	48,130		936,553
Other	8,429	1,381	1,957	38,824	10,302	848,565	909,458
<b>Total</b>	<b>23,832,827</b>	<b>1,921,394</b>	<b>4,593,432</b>	<b>12,338,558</b>	<b>6,041,198</b>	<b>1,913,457</b>	<b>50,640,866</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

The following table shows the remaining maturities of derivative financial assets and liabilities of the Bank.

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Forwards Contracts-Buy	1,839,110	1,224,597	1,499,886	472,775		5,036,368
Forwards Contracts-Sell	1,838,665	1,223,920	1,518,338	492,706		5,073,629
Swaps Contracts-Buy	19,617,454	537,571	6,021,900	12,620,754	9,502,051	48,299,730
Swaps Contracts-Sell	18,033,623	536,420	5,904,372	11,777,540	9,502,051	45,754,006
Futures Transactions-Buy						
Futures Transactions-Sell						
Options-Call	735,862	544,246	511,538	673,330		2,464,976
Options-Put	741,348	538,088	493,405	673,330		2,446,171
Other	1,854,593	146,857	183,724	219,978		2,405,152
<b>Total</b>	<b>44,660,655</b>	<b>4,751,699</b>	<b>16,133,163</b>	<b>26,930,413</b>	<b>19,004,102</b>	<b>111,480,032</b>

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Forwards Contracts-Buy	1,115,548	935,351	1,847,165	320,577		4,218,641
Forwards Contracts-Sell	1,117,192	934,872	1,858,497	351,493		4,262,054
Swaps Contracts-Buy	16,154,450	7,112,794	7,735,785	10,036,924	6,309,308	47,349,261
Swaps Contracts-Sell	13,164,481	7,350,396	7,720,001	9,804,457	6,309,308	44,348,643
Futures Transactions-Buy						
Futures Transactions-Sell						
Options-Call	910,133	1,592,671	1,925,801	382,651	552,240	5,363,496
Options-Put	867,248	1,481,078	1,737,951	382,650	552,240	5,021,167
Other	3,532,169	377,574	1,207,206	377,132		5,494,081
<b>Total</b>	<b>36,861,221</b>	<b>19,784,736</b>	<b>24,032,406</b>	<b>21,655,884</b>	<b>13,723,096</b>	<b>116,057,343</b>

## VII. Explanations on Leverage Ratio

## a. Explanations on Differences Between Current and Prior Years' Leverage Ratios

The Bank's unconsolidated leverage ratio is 8.23% calculated in accordance with the principles of the "Regulation on Measurement and Evaluation of Banks' Leverage Level". (31 December 2015: 8.50%). Change of leverage ratio is mainly related to increase in the amount of risk on balance sheet items. According to Regulation, the minimum leverage ratio is 3%.

## b. Explanation on leverage ratio

	Current Period <sup>(1)</sup>	Prior Period <sup>(1)</sup>
<b>On-Balance Sheet Items</b>		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	305,116,453	276,020,449
Asset amounts deducted in determining Basel III Tier 1 capital	(435,842)	(453,159)
The total amount of risk on-balance sheet exposures	304,680,611	275,567,290
<b>Derivative exposures and credit derivatives</b>		
Replacement cost associated with derivative financial instruments and credit derivatives	1,755,435	1,390,575
The potential amount of credit risk with derivative financial instruments and credit derivatives	769,730	747,653
The total amount of risk on derivative financial instruments with credit derivatives	2,525,165	2,138,228
<b>Investment securities or commodity collateral financing transactions</b>		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	3,229,756	3,653,158
Risk amount of exchange brokerage operations		
The total amount of risk investment securities or commodity collateral financing transactions	3,229,756	3,653,158
<b>Off-Balance Sheet Items</b>		
Gross notional amount for off-balance sheet items	116,699,324	105,599,526
Adjustments for conversion to credit equivalent amounts	(5,516,603)	(7,016,044)
The total amount of risk for off-balance sheet items	111,182,721	98,583,482
<b>Capital and Total Exposures</b>		
Tier 1 Capital	34,674,984	32,278,853
Total Exposures	421,618,253	379,942,168
<b>Leverage Ratio</b>		
Leverage Ratio	8.23	8.50

<sup>(1)</sup> Three-month average of the amounts in Leverage Ratio table.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### VIII. Explanations on Other Price Risks

The Bank is exposed to equity securities price risk due to its investments in companies being traded on the BIST. Shares are being acquired for investment purposes.

The Bank's sensitivity to equity price risk at the reporting date an analysis was conducted to measure. In the analysis, with the assumption of all other variables were held constant (stock prices) are 10% higher or lower and is assumed that. According to this assumption in equity securities revaluation reserve account TL 866,735 (31 December 2015: TL 750,093) increase/decrease is expected to be. This, in fact, the fair value of publicly traded subsidiaries and associates the increase/decrease is due. On the other hand, according to the analysis carried out similar assumptions, held for trading securities that are traded in an active market (stock exchange) may have an impact on profit (+/-) TL 16,311.

#### IX. Explanations on Presentation of Assets and Liabilities at Fair Value

##### 1. Information on fair values of financial assets and liabilities

	Book Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
<b>Financial Assets</b>				
Money Market Placements				
Banks	2,229,080	1,517,501	2,242,161	1,528,903
Financial Assets Available for Sale	45,326,910	40,860,360	45,326,910	40,860,360
Investments Held to Maturity	5,357,340	3,591,631	5,231,846	3,508,664
Loans	204,257,243	177,933,756	204,461,075	176,241,705
<b>Financial Liabilities</b>				
Banks Deposits	6,462,346	7,714,181	6,461,622	7,706,168
Other Deposits	170,897,630	146,088,245	170,971,495	146,201,394
Funds Provided from Other Financial Institutions	30,884,697	28,408,499	30,785,803	28,306,644
Marketable Securities Issued <sup>(1)</sup>	27,395,217	23,808,262	27,047,601	23,827,075
Miscellaneous Payables	8,602,506	6,850,381	8,602,506	6,850,381

<sup>(1)</sup> Includes subordinated bonds which are classified on the balance sheet as subordinated loans.

Fair values of investments held to maturity securities issued is determined by using the market prices; in cases where market prices cannot be measured, quoted market prices of other securities that are subject to amortization having similar interest, maturity and other conditions are taken as the basis for the fair value determination.

Market prices are taken into account in determining the fair values of the securities available for sale. When the prices cannot be measured in an active market, fair values are not deemed to be reliably determined and amortized cost, calculated by the internal rate of return method, are taken into account as the fair values.

Fair values of banks, loans granted, deposits and funds borrowed from other financial institutions and marketable securities are calculated by discounting the amounts in each maturity bracket formed according to repricing periods, using the rate corresponding to relevant maturity bracket in the discount curves based on current market conditions.

##### 2. Information on fair value measurements recognized in the financial statements

"IFRS 13 - Fair Value Measurement" standard requires the items, which are recognized in the balance sheet at their fair values to be shown in the notes by being classified within a range. According to this, the related financial instruments are classified into three levels in such a way that they will express the significance of the data used in fair value measurements. At the first level, there are financial instruments, whose fair values are determined according to quoted prices in active markets for identical assets or liabilities, at the second level, there are financial instruments, whose fair values are determined by directly or indirectly observable market data, and at the third level, there are financial instruments, whose fair values are determined by the data, which are not based on observable market data. The financial assets, which are recognized in the balance sheet at their values, are shown below as classified according to the aforementioned principles of ranking.

Current Period	Level 1	Level 2	Level 3
<b>Financial Assets at Fair Value Through Profit and Loss</b>			
Debt Securities	455,858	6,552	2
Equity Securities	163,106		
Derivative Financial Assets Held for Trading		1,959,449	
Other			
<b>Financial Assets Available-for-Sale <sup>(1)</sup></b>			
Debt Securities	33,825,053	10,216,770	959,406
Equity Securities		89,888	
Other		53,125	
<b>Investments in Subsidiaries and Associates <sup>(2)</sup></b>	8,667,352		
<b>Derivative Financial Liabilities</b>		799,583	

<sup>(1)</sup> Since they are not traded in an active market, the equity securities TL 182,668 under the financial assets available-for-sale are shown in the financial statements at acquisition cost and the related securities are not shown in this table.

<sup>(2)</sup> Since the unlisted investments in associates and subsidiaries are recognized at acquisition cost within the framework of "TAS 27", these companies are not included in the table.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

Prior Period	Level 1	Level 2	Level 3
<b>Financial Assets at Fair Value Through Profit and Loss</b>			
Debt Securities	227,266	9,062	36,290
Equity Securities	56,255		
Derivative Financial Assets Held for Trading		1,263,425	
Other			
<b>Financial Assets Available-for-Sale <sup>(1)</sup></b>			
Debt Securities	28,049,361	8,565,130	3,778,269
Equity Securities			255,353
Other		49,052	
<b>Investments in Subsidiaries and Associates <sup>(2)</sup></b>			
	7,500,929	49,052	
<b>Derivative Financial Liabilities</b>			
		927,974	

<sup>(1)</sup> Since they are not traded in an active market, the equity securities TL 163,195 under the financial assets available-for-sale are shown in the financial statements at acquisition cost and the related securities are not shown in this table.

<sup>(2)</sup> Since the unlisted investments in associates and subsidiaries are recognized at acquisition cost within the framework of TAS 27, these companies are not included in the table.

The movement table of financial assets at level 3 is given below:

	Current Period	Prior Period
<b>Balance at the Beginning of the Period</b>	4,069,912	745,673
Purchases		39,716
Redemption or Sales	(290,448)	(58,307)
Valuation Difference	165,180	401,811
Transfers <sup>(1)</sup>	(2,985,236)	2,941,019
<b>Balance at the end of the Period</b>	<b>959,408</b>	<b>4,069,912</b>

<sup>(1)</sup> Amount in the current period consists of the securities that have not been traded publicly in the prior period but have been monitored on stock exchange value in the current period.

Real estates which are presented in the financial statements at fair value are classified at level 3.

#### X. Explanations on Transactions Carried Out on Behalf of Third Parties and Fiduciary Transactions

The Bank gives trading and custody services in the name and on the account of its customers. The Bank has no fiduciary transactions.

#### XI. Explanations on Risk Management Objectives and Policies

Explanations according to "Communiqué on Public Disclosures about Risk Management" published on the Official Gazette No.29511 dated 23 October 2015 are included below. The Bank uses standardised approach for calculation of capital charge for credit risk, therefore explanations about internal ratings-based approach are not included.

##### a. General Information on Risk Management and Risk Weighted Amounts

###### a.1. The Bank's risk management approach

Bank is exposed to financial and non-financial risks which are required to be analyzed, monitored and reported within specific risk management principles of the Bank and with the perspective of risk management. The risk management process is organized within the framework of risk management and serves the creation of a common risk culture in corporate level; which brings "corporate governance" to forefront, the independence of the internal audit and monitoring units from the business units that undertake risks is established risk is defined in accordance with international regulations and in this context measurement, analysis, monitoring, reporting and control functions are carried.

Risk management process and the functions involved in the process is one of the primary responsibilities of the Board of Directors. The Risk Committee operates to prepare the Bank's risk management strategies and policies, submit them to the Board of Directors for approval and monitor the implementations. Evaluating the capital adequacy and observing the active use of results in Bank's planning and decision making processes, establishing and monitoring limits related to main risks, monitoring the activities of risk management (determining, defining, measuring, evaluating and managing risk) and monitoring results and methods in measuring risk are also under their authority and responsibility of the Committee. Committee reports activity results to the Board of Directors through Audit Committee.

The Risk Management Department, which operates under the Bank's Board of Directors, has been organized as Asset-Liability Management Risk Unit, Credit Risk and Economic Capital Unit, Operational Risk and Subsidiary Risk Unit and Validation Unit.

The Bank's risk management process is carried out within the framework of risk policies which are issued by the Board of the Directors by taking the recommendations of the Risk Management Department into account and which include the written standards that are implemented by the business units. These policies which are entered into force in line with the international practices are general standards which contain organization and scope of the risk management function, risk measurement policies, duties and responsibilities of the risk management group, procedures for determining risk limits, ways to eliminate limit violations, compulsory approvals and confirmations to be given in a variety of events and situations.

In the aforementioned risk policies, the Bank's risk appetite framework is defined as a set of approaches that determine the risk capacity, the risk appetite, the risk tolerance and that include the policies, procedures, controls and systems for reporting and monitoring of the limits set for the Bank's risk profile and the indicators in the framework. The Bank's risk appetite framework, which is formed in accordance with the above-mentioned factors and entered into force with the Board of Directors approval, includes indicators that are aligned with the business plan, the strategic programme, capital and remuneration planning and comparable on a business unit level to the extent possible. The compliance to the limits within the framework is periodically monitored and the realization of the risk appetite indicators are reported to the Risk Committee and the Boards on a monthly basis.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

In order to build a strong corporate culture that has a risk management perspective, the Bank has policies, processes, systems and a control system that is integrated with the Bank's risk management system to effectively control the bank's risk management system is available. All employees of the Bank essentially perform their duties in a responsible manner that aims to develop controls to reduce or eliminate the probability of the Bank to incur losses related to the operational risks. In the process risk analysis studies, risks and the related controls are evaluated together with employees performing the relevant process in a holistic approach. Procedures to be followed in case of a risk threshold breach and risk definitions are given in the risk politics. Code of conducts, operation manuals, the sharing of duties between business units and risk units are announced to the Bank's staff.

The risk reports that analyse the results reached by the Bank and the comprehensive risk assessment and comparison of these results with a risk management perspective are periodically submitted to the Risk Committee and to the Board through the Audit Committee. The content of the above mentioned reports could be summarised as follows:

- Capital adequacy ratio, the progression of the components of this ratio and the issues that affect the aforementioned ratio,
- Monitoring the compliance status of the limits set by the Board of Directors as a part of the risk appetite framework and based on the components of the main risk types,
- In addition to the assessment of the loan portfolio on the basis of counterparties and loan types, monitoring of the portfolio as a whole according to parameters such as maturity, sector, geography, risk ratings, arrears, defaults,
- Measuring the assets and liabilities management risk, and reporting of measurement results,
- Monitoring of all risks assessed in the context of operational risk, loss events that occurred in the Bank and risk indicators,
- Testing the measurement results in terms of completeness and reliability,
- Analysing the level of risk indicators under various stress scenarios,
- Examining various concentration indicators and the course followed by these indicators,

As per the communique on "Bank's Internal Systems and Internal Capital Adequacy and Assessment Process" and "Guidelines for Stress Testing of Banks to Use in Capital and Liquidity Planning", stress tests are conducted for the entire risks that the Bank is exposed to and on the basis of significant risk categories. As a part of the holistic stress tests, risk appetite, capital planning, strategic plan and budget, action plans for emergencies and unexpected situations related to miscellaneous risks and other issues considered as significant are taken into consideration. In the above-mentioned stress tests, the methods that form the basis of regulatory reporting (standard method for credit and market risk, basic indicator method for operational risk) are used. On the other hand, in the stress tests for individual risk types the most advanced approaches used for risk measurement in the Bank are leveraged.

In the stress tests, both the first pillar risks (credit risk, market risk, operational risk) in scope of the regulatory framework and all the other risks that the Bank is exposed to independent of the regulatory framework are taken into account in a holistic perspective. In determining the course of capital adequacy under various scenarios during the planning horizon, the actions that the Bank will take in case of stress conditions and the impact of the diversified growth strategies of business units on the capital adequacy and the balance sheet are considered.

The scope and content of the Bank's risk management system in terms of the main risk types are listed below. Bank's risk mitigation strategies and processes for the assessment of their effectiveness are given in Fourth Section II No. "Explanations on Credit Risk" under the Fourth Section XI-f.1 notes. No. "The Public Disclosure of Qualitative Information Related to the Market Risk" mentioned in the section.

#### Credit risk

Credit risk is defined as the risk of the failure to comply with the requirements or failing to fulfill its obligations partially or totally of the counter side of the transaction contract with the Bank. The methodology and responsibilities of the credit risk management, controlling and monitoring and the framework of credit risk limitations specified with the credit risk policy.

The Bank defines measures and manages credit risk of the all products and activities. Board of Directors review the Bank's credit risk policies and credit risk strategy on an annual basis as a minimum. Key Management is responsible for the implementation of credit risk policies which are approved by Board of Directors.

As a result of loans and credit risks analysis all findings are reported to Board of Directors and Key Management on a regular basis. In addition to transaction and company based credit risk assessment process, monitoring of credit risk also refers to an approach with monitoring and managing the credit as a whole maturity, sector, security, geography, currency, credit type and credit rating.

In the Bank's credit risk management, along the limits as required by legal regulations, the Bank utilizes the risk limits to undertake the maximum credit risk within risk groups or sectors that the Board of Directors determines. These limits are determined such a way that prevents risk concentration on particular sectors.

Excess risk limits up to legal requirements and boundaries limits are considered as an exception. The Board of Directors has the authority in exception process. The results of the control of risk limits and the evaluations of these limits are presented by Internal Audit and Risk Management Group to Key Management and Board of Directors.

The Bank uses credit decision support systems which are created for the purpose of credit risk management, lending decisions, controlling the credit process and credit provisioning. The consistency of the credit decision support systems with the structure of the Bank's activities, size and complexity is examined continuously by internal systems. Credit decision support systems contain the Risk Committee assessment and approval of Board of Directors.

#### Asset and Liability Management Risk

Asset-liability management risk defined as the risk of Bank's incurring loss due to managing all financial risks that are inflicted from the Bank's assets, liabilities and off-balance sheet transactions, ineffectively. Trading book portfolio's market risk, structural interest rate risk and liquidity risk of the banking portfolio; are considered within the scope of the asset liability management.

Complying the established risk limits and being at the limits that stipulated by the legislation are the primary priority of Asset-liability management risk. Risk limits are determined by the Board of Directors by taking into consideration of the Group's liquidity, target income level and general expectations about changes in risk factors.

Board of Directors and the Audit Committee are responsible for following the Bank's capital is used optimally; for this purpose, checking the status against risk limits and providing the necessary actions are taken.

Asset and Liability Management Committee is responsible for managing the Asset and Liability risk within the framework of operating principles that are involved in the risk appetite and risk limits are set by the Board of Directors in accordance with the policy statement.

Asset and liability management processes and compliance with the provisions of the policy are controlled and audited by the internal audit system. The execution of the audit, reporting the audit results, action plans for the elimination of errors and gaps identified as a result of inspections regarding the fulfillment of the principles, are determined by the Board of Directors.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## Operational Risk

Operational risk is defined as “the probability of loss due to the inadequate or failed internal processes, people, systems, external factors or legal risks”. All risks except financial risks are considered within the scope of operational risk. Studies consisted and are formed of occur by execution of identification, definition, measurement, analysis, monitoring of operational risk, providing and reporting the necessary control related to monitoring the progress of our country and the world, the development of techniques and methods, necessary legal reporting, notification and conduct of follow-up transactions. Studies on the subject are conducted by the Department of Risk Management.

Operational risks that arise due to the activities are defined in “Bank Risk Catalogue” and classified in respect of species. Bank Risk Catalogue is kind of the fundamental document that used for identification and classification of all at the risk that may be encountered. It is updated in line with the changes in the nature of the processes and activities.

Qualitative and quantitative methods are used in a combination for measurement and evaluation of the operational risks. In this process, information uses that obtained from “Impact-Probability Analysis”, “Missing Event Data Analysis”, “Risk Indicators” methods. Methods prescribed by legal regulations are applied as minimum in determining the capital requirement level for the operating risk.

All risks are assessed in the context of operational risk, loss events and the risk indicators same as operational risks that occurred in the Bank, are monitored on a regular basis by the Department of Risk Management and reported periodically to the Risk Committee and the Board of Directors.

## Validation Operations

Risk measurement models are validated at least once a year under international standards. The performance and soundness of the models are evaluated by the validation unit by statistical methods, the compliance of the processes applied within the scope of the model with the related laws, communiqués and regulations are analyzed, and the appropriateness of the data quality and IT applications used in the models is monitored. The results of the validation activities are reported to the Risk Committee and the Board of Directors.

## a.2. Overview of risk weighted amounts:

	Risk Weighted Amount		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
Credit risk (excluding counterparty credit risk) (CCR) <sup>(1)</sup>	240,395,290	215,074,889	19,231,623
Of which standardised approach (SA)	240,395,290	215,074,889	19,231,623
Of which internal rating-based (IRB) approach			
Counterparty credit risk	3,876,070	1,520,941	310,086
Of which standardised approach for counterparty credit risk (SA-CCR)	3,876,070	1,520,941	310,086
Of which internal model method (IMM)			
Equity positions in banking book under basic risk weighting or internal rating-based approach			
Equity investments in funds - look-through approach			
Equity investments in funds - mandate-based approach			
Equity investments in funds - 1250% weighted risk approach			
Settlement risk	7,037		563
Securitization positions in banking accounts			
Of which IRB ratings-based approach (RBA)			
Of which IRB Supervisory formula approach (SFA)			
SA/simplified supervisory formula approach (SSFA)			
Market risk	6,767,513	7,193,063	541,401
Of which standardised approach (SA)	6,767,513	7,193,063	541,401
Of which internal model approaches (IMM)			
Operational Risk	17,552,178	16,047,746	1,404,174
Of which Basic Indicator Approach	17,552,178	16,047,746	1,404,174
Of which Standardised approach (SA)			
Of which Advanced measurement approach			
The amounts below the thresholds for deduction from capital (subject to a 250% risk weight)	1,601,185	1,498,212	128,094
Floor adjustment			
<b>Total</b>	<b>270,199,273</b>	<b>241,334,851</b>	<b>21,615,941</b>

<sup>(1)</sup> Settlement risk and the amounts below the thresholds for deduction from capital are not included

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### b. Linkages Between Financial Statements and Risk Amounts

##### b.1. Differences and matching between asset and liabilities' carrying values in financial statements and risk amounts in capital adequacy calculation

	Carrying values in financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				Not subject to capital requirements or subject to deduction from capital
		Subject to credit risk	Subject to counterparty credit risk	Securitization Positions	Subject to market risk <sup>(1)</sup>	
<b>Assets</b>						
Cash and CBRT	32,426,628	32,426,628				
Financial Assets Held for Trading	2,584,967		1,959,449		625,518	
Financial Assets Held for Trading	625,518				625,518	
Derivative Financial Assets Held for Trading	1,959,449		1,959,449			
Bank and Money Market Placements	2,229,080	2,229,080				
Financial Assets Available-for-Sale	45,326,910	45,203,621			123,289	
Loans, Factoring Receivables and Lease Receivables	204,257,243	204,257,243				
Investment Held-to-Maturity	5,357,340	5,357,340				
Investment in Associates, Subsidiaries and Joint-Ventures	10,442,397	10,442,397				
Derivative Financial Assets Held for Risk Management						
Tangible Assets	4,384,352	4,384,352				
Intangible Assets	374,192	374,192				
Investment Properties						
Tax Asset	515,899	515,899				
Assets Held for Sale and Discontinued Operations	79,931	79,931				
Other Assets	3,646,974	3,160,441				486,533
<b>Total Assets</b>	<b>311,625,913</b>	<b>308,431,124</b>	<b>1,959,449</b>		<b>748,807</b>	<b>486,533</b>
<b>Liabilities</b>						
Deposits	177,359,976					
Derivative Financial Liabilities Held for Trading	799,583					
Funds Borrowed	30,884,697		4,179,217			
Money Market Funds	20,592,835		17,341,300			
Marketable Securities Issued	22,465,201					
Other Liabilities	10,714,041					
Derivative Financial Liabilities Held for Risk Management						
Provisions	7,544,609					
Tax Liability	373,974					
Subordinated Debts	4,930,016					
Shareholders' Equity	35,960,981					
<b>Total Liabilities</b>	<b>311,625,913</b>		<b>21,520,517</b>			

<sup>(1)</sup> Represents the valued amounts of items in accordance with TAS which are subject to specific risk within the context of market risk

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## b.2 The main sources of the differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements

	Total	Credit Risk	Securitization Positions	Counterparty credit risk	Market risk <sup>(3)</sup>
1 Asset carrying value amount under regulatory in financial statement	311,625,913	308,431,124		1,959,449	748,807
2 Liabilities carrying value amount under regulatory in financial statement				(21,520,517)	
3 Total net amount scope of financial statement	311,625,913	308,431,124		23,479,966	748,807
4 Off-balance sheet amounts	177,522,453	43,714,019		2,771,112	
5 Repo style transactions <sup>(1)</sup>				3,410,161	
6 Differences in valuations					
7 Differences due to different netting rules					
8 Differences due to consideration of provisions					
9 Differences due to prudential filters					
10 Differences due to risk mitigation <sup>(2)</sup>		(9,427,709)			
<b>11 Risk Amounts</b>		<b>342,717,434</b>		<b>6,181,273</b>	<b>748,807</b>

<sup>(1)</sup> According to the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", it is the counterparty credit risk amount calculated for repo style transactions.

<sup>(2)</sup> The source of the difference is collaterals of exposures to which credit risk mitigation is applied in the calculation of capital adequacy.

<sup>(3)</sup> Represents the valued amounts subject to specific risk within market risk in accordance with TAS.

The Bank intends to use fair value measurement methods in accordance with TFRS 13 using valuation methodologies based primarily on observable data. In this context, market prices, quoted prices, prices set by CBRT and published in official gazette and internal pricing models are also utilized in the fair value measurement of the financial assets in the form of securities. Valuation models that use market data such as interest rates, efficiency curves, currency, volatility curves are used as the basis for derivative transactions while third party valuation services are also available.

The accuracy of the market prices, data and/or model inputs used in valuation under the independent price validation process is regularly checked and the suitability of the results provided by the third party pricing service is tested at regular intervals.

## c. Explanation on Credit Risk

## c.1. General Information on Credit Risk

## c.1.1. General qualitative information on credit risk

This information is included in footnotes under Section Four, Part II, "Explanations on Credit Risk," and Section Four, Note XI-a.1.

## c.1.2. Credit quality of assets:

	Gross Carrying Value in Financial Statements Prepared in Accordance with Turkish Accounting Standards (TAS)		Allowances/amortization and impairments	Net Values
	Defaulted	Non-defaulted		
Loans	4,944,355	203,143,845	3,830,957	204,257,243
Debt Securities		50,435,685		50,435,685
Off-balance sheet exposures	297,323	112,687,491	120,311	112,864,503
<b>Total</b>	<b>5,241,678</b>	<b>366,267,021</b>	<b>3,951,268</b>	<b>367,557,431</b>

c.1.3. Changes in stock of default loans and debt securities <sup>(1)</sup>:

<b>Defaulted loans and debt securities at end of the previous reporting period</b>	<b>3,603,689</b>
Loans and debt securities that have defaulted since the last reporting period	3,296,173
Receivables back to non-defaulted status	(113,641)
Amounts written off	(386,998)
Other changes	(1,454,868)
<b>Defaulted loans and debt securities at end of the reporting period</b>	<b>4,944,355</b>

<sup>(1)</sup> Indemnified non-cash loans of the firms which are followed under "Non-performing Loans" accounts are not included in the table.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### c.1.4. Additional Explanation About the Credit Quality of Asset

Definition of overdue and provisioned receivables are represented in the Section Four Notes II-16. Bank's methods for determining provisions amounts are mentioned in the Section Three Notes VIII.

The bank is restructuring its loans and other receivables classified as first and second group as well as non-performing loans and receivables. Restructuring in performing loans are made by granting a new loan or extending the term date of credit given to customer by Bank. Restructuring of a contract is made on customer's demand or with the purpose of enhancing the solvency of customer. Restructuring in non-performing loans are generally made by establishing a new redemption plan within the context of a protocol aiming the collection of those receivables whose redemption plan are not valid because of delinquency previously.

The breakdown of receivables in terms of geographic regions, sectors and remaining maturities are represented in "Explanations on Credit Risk" in the Section Four Notes II.

On the basis of sector-based provisions for receivables are presented in the footnote numbered Section Four II-16. The amounts of the receivables that are set aside for the geographical regions are as follows. The amount of non-performing loans which are actively written off in 2016 is TL 386,998.

Current Period	Non-Performing Loans	Specific Provision
Domestic	4,847,785	3,739,593
EU Countries	7,682	5,685
OECD Countries <sup>(1)</sup>	585	499
Off-shore Banking Regions	6	3
USA, Canada	574	379
Other Countries	87,723	84,798
<b>Total</b>	<b>4,944,355</b>	<b>3,830,957</b>

<sup>(1)</sup> OECD countries other than the EU countries, USA and Canada

The aging analysis of deferred receivables is included in Section Four Note II-11

#### c.2. Credit risk mitigation

##### c.2.1. Qualitative Requirements to be Disclosed to The Public Regarding Credit Risk Mitigation Techniques

In the calculation of the Bank's Credit Risk Mitigation in accordance with the "Communiqué on Credit Risk Mitigation Techniques" published in the Official Gazette numbered 29111 on 6 September 2014, the financial collaterals are taken into consideration. The Bank takes local currency and foreign currency deposit pledges into consideration as financial collaterals in calculating regulatory capital adequacy.

Information on key characteristics of the policies and processes related to the assessment and management of collateral are included in footnotes under Chapter IV, "Credit Risk Explanations".

##### c.2.2. Credit risk mitigation techniques:

	Exposures unsecured	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	199,592,473	4,664,770	3,572,848			
Debt securities	50,435,685					
<b>Total</b>	<b>250,028,158</b>	<b>4,664,770</b>	<b>3,572,848</b>			
Of which defaulted	1,113,398					

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## c.3. Credit risk if standard approach is used

## c.3.1. Qualitative disclosures about the ratings notes used by banks to calculate credit risk by standard approach

Section Four Note XI-a.1 has been included in the discussion.

## c.3.2. Standard approach - Exposure credit risk and credit risk mitigation effects

	Exposures before CCF and CRM <sup>(1)</sup>		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	Risk-weighted amount	Risk-weighted amount density
Exposures to sovereigns and their central banks	80,723,986	11,088	80,812,375	2,067	20,358,082	25.19%
Exposures to regional and local governments	48,043	15,649	48,043	3,196	25,874	50.50%
Exposures to administrative bodies and non-commercial entities	228,095	131,904	227,865	40,771	268,636	100.00%
Exposures to multilateral development banks		9,812		4,906		
Exposures to international organizations						
Exposures to banks and securities firms	4,517,437	11,618,982	9,371,935	3,153,951	5,032,695	40.18%
Exposures to corporates	113,589,319	76,681,086	111,648,150	31,616,075	142,108,477	99.19%
Retail exposures	49,698,771	27,647,990	49,355,727	1,620,521	38,232,186	75.00%
Exposures secured by residential property	16,616,481	432,532	16,616,481	173,265	5,876,411	35.00%
Exposures secured by commercial property	21,610,585	1,773,077	21,560,626	1,108,698	15,555,393	68.62%
Past-due loans	1,113,398		1,113,398		826,099	74.20%
Exposures in higher-risk categories	1,583	539,927	1,583	135,649	158,101	115.21%
Exposures in the form of bonds secured by mortgages						
Short term exposures to banks, brokerage houses and corporates						
Equity investments in the form of collective investment undertakings						
Other exposures	9,715,752		9,715,752		5,973,259	61.48%
Equity investments	10,567,673		10,567,673		10,754,536	101.77%
<b>Total</b>	<b>308,431,123</b>	<b>118,862,047</b>	<b>311,039,608</b>	<b>37,859,099</b>	<b>245,169,749</b>	<b>70.27%</b>

<sup>(1)</sup> Includes on-balance sheet and off-balance sheet transactions subject to the calculation of the credit risk according to the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks".

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### c.3.3. Standardised Approach-Exposures by Risk Classes and Risk Weights:

Risk Groups	Risk Weights										Total	
	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%		
Exposures to sovereigns and their central banks	43,023,169				36,414,079		861,295			515,899		80,814,442
Exposures to regional and local governments					50,731		508					51,239
Exposures to administrative bodies and non-commercial entities							268,636					268,636
Exposures to multilateral development banks	4,906											4,906
Exposures to international organizations												
Exposures to banks and securities firms			4,597,283		7,630,911		297,511	181				12,525,886
Exposures to corporates			129,385		2,121,222		140,996,877	16,741				143,264,225
Retail exposures						50,976,248						50,976,248
Exposures secured by residential property				16,789,746								16,789,746
Exposures secured by commercial property					14,227,862		8,441,462					22,669,324
Past-due loans <sup>(1)</sup>					574,598		538,800					1,113,398
Exposures in higher-risk categories					27,592		40,311	69,329				137,232
Exposures in the form of bonds secured by mortgages												
Short term exposures to banks, brokerage houses and corporates												
Equity investments in the form of collective investment undertakings												
Other exposures	3,742,464		36				5,973,252					9,715,752
Equity investments							10,443,098			124,575		10,567,673
<b>Total</b>	<b>46,770,539</b>		<b>4,726,704</b>	<b>16,789,746</b>	<b>61,046,995</b>	<b>50,976,248</b>	<b>167,861,750</b>	<b>86,251</b>		<b>640,474</b>		<b>348,898,707</b>

<sup>(1)</sup> In accordance with the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", credits and other receivables which are monitoring in the non-performing loans and receivables representing the net of value excluding specific provisions."

#### d. Explanations on Counterparty credit risk

##### d.1. Qualitative Explanations on Counterparty credit risk

The counterparty credit risk that the Bank is exposed to is managed within the framework of general limit allocation and credit risk mitigation that are outlined in the credit risk policy. In setting general credit limits, the counterparty credit risks of customers as well as their cash and noncash risks are taken into account with a holistic view. Moreover, the total position of the transactions which create counterparty credit risk is also monitored under a separate risk limit.

The counterparty credit risk, which stems from derivatives and repo style transactions that result in liabilities for both sides, is measured according to the Appendix-2 of the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" which is published on the Official Gazette no.29511 dated 23 November 2015. Counterparty credit risk valuation method based on the calculation of fair values of the derivative transactions is implemented.

In calculating the potential credit risk, the amount of the contract is multiplied by the rates given in the regulation. The replacement costs of derivative instruments are calculated based on the valuation of the related contracts according to the fair value method.

Most of the credit risk related to the derivative transactions with other banks is subject to daily collateral clearing agreements mutually signed with related parties and the counterparty credit risk is hence reduced. On the other hand, the risk-reducing effect of such agreements is not considered in the calculation of the counterparty credit risk under the capital adequacy legislation. There are no guarantees received or sold by credit derivatives by the Bank in the context of trading or banking accounts.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

## d.2. Counterparty credit risk (CCR) approach analysis:

	Replacement Cost	Potential Future Exposure	Exposure after Credit Risk Mitigation	Risk Weighted Amounts
Standardised Approach -CCR (for derivatives)	1,959,449	811,663	2,771,112	1,876,719
Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			3,410,161	1,296,559
<b>Total</b>	<b>1,959,449</b>	<b>811,663</b>	<b>6,181,273</b>	<b>3,173,278</b>

## d.3. Credit valuation adjustment (CVA) for capital obligation:

	Risk Amounts	Risk Weighted Amounts
Total portfolio value with standardized approach CVA capital charge	2,771,112	702,792
Total subject to the CVA capital charge	2,771,112	702,792

## d.4. CCR exposures by risk class and risk weights:

Risk Groups	Risk Weights							Total Credit Exposure
	0%	10%	20%	50%	75%	100%	150%	
Conditional and unconditional exposures to sovereigns and their central banks	88,381					3		88,384
Conditional and unconditional exposures to regional and local governments								
Conditional and unconditional exposures to administrative bodies and non-commercial entities						73		73
Conditional and unconditional exposures to multilateral development banks								
Conditional and unconditional exposures to international organizations								
Conditional and unconditional exposures to banks and securities firms			1,591,500	3,262,299		703		4,854,502
Exposures to corporates				28,245		1,205,496		1,233,741
Retail exposures					4,571			4,571
Exposures secured by residential property								
Exposures secured by commercial property								
Exposures in high-risk categories							2	2
Exposures in the form of bonds secured by mortgages								
Short term exposures to banks, brokerage houses and corporates								
Equity investments in the form of collective investment undertakings								
Equity investments								
Other Exposures								
Other Assets								
<b>Total</b>	<b>88,381</b>		<b>1,591,500</b>	<b>3,290,544</b>	<b>4,571</b>	<b>1,206,275</b>	<b>2</b>	<b>6,181,273</b>

## d.5. Collateral for CCR:

	Collateral used in derivative transactions				Collateral used in other transactions	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash- Domestic Currency					14,993,339	
Cash- Other Currencies					6,527,302	
<b>Total</b>					<b>21,520,641</b>	

## d.6. Credit derivatives exposures:

None.

## d.7. Exposures to central counterparties:

None.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### e. Explanations on securitizations:

None.

#### f. Market Risk Explanations

##### f.1. Qualitative information to be disclosed to the public regarding market risk

Market risk is defined as the risk that may reduce the market value of the trading portfolio due to the changes in the risk factors named interest rate, exchange rates, equities and the price of commodities and options.

The procedures for the management of market risk are discussed in the Bank's "Asset and Liability Management Risk Policy" and those procedures are in line with the risk/return expectations of the Bank and with the limits that are defined in the risk appetite framework. Limits related to market risk; are established by the Board and are revised periodically in order to reflect market conditions and best practices in the industry. Compliance to those limits is closely monitored by the Risk Management Department, Asset and Liability Management Committee and by the executive departments. Additionally, compliance with the provisions relating to the procedures and policies of market risk management is audited by the internal audit system.

Trading activities of the securities that are included in the calculation of market risk is carried out by taking the Asset-Liability Committee decisions, risk policies and established limits into consideration and risks arising due to these activities are hedged using derivatives transactions where necessary.

Measurement of market risk, reporting of results, and monitoring compliance with the risk limits are among the key responsibilities of the Risk Management Department. Analyses related to market risk are reported to the Risk Committee and to the Board via the Audit Committee by the Risk Management Department.

The trading book of the Bank included in market risk calculations consists of on balance-sheet financial assets that are held for trading intent, derivatives that provide hedge to those instruments and foreign currency positions. The market risk carried by the Bank is measured and monitored using two methods known respectively as the Standard Method and the Value at Risk Model (VAR) in accordance with the local regulations which are established in compliance with the international legislations. In this context, the exchange rate risk emerges as the most important component of the market risk.

The market risk calculations using the Standard Method are performed at the end of each month and the measurement results are included in the statutory reports as well as being reported to the Bank's top management. The Value at Risk Model is another alternative for the Standard Method used for measuring and monitoring market risk. This model is used to measure the market risk on a daily basis in terms of interest rate risk, currency risk and equity share risk and is a part of the Bank's daily internal reporting. Further retrospective testing (back-testing) is carried out on a daily basis to determine the reliability of the daily risk calculation by the VAR model, which is used to estimate the maximum possible loss for the following day.

Scenario analyses which support the VAR model used to measure the losses that may occur in the ordinary market conditions are practiced, and the possible impacts of scenarios that are developed based on the future predictions and the past crises, on the value of the Bank's portfolio are determined and the results are reported to the Bank's top management.

##### f.2. Standardised Approach:

	RWA
Outright Products	6,747,500
Interest rate risk (general and specific)	675,575
Equity risk (general and specific)	402,150
Foreign exchange risk	5,113,950
Commodity risk	555,825
Options	20,013
Simplified approach	
Delta-plus method	20,013
Scenario approach	
Securitisations	
<b>Total</b>	<b>6,767,513</b>

#### g. Explanations on Operational Risk

The operational risk capital requirement is calculated according to Regulation on Measurement and Evaluation of Capital Adequacy of Banks' article number 24, is measured using the Basic Indicator Approach once a year in parallel with domestic regulations. As of 31 December 2016 the operational risk amount is TL 17,552,178 and information about the calculation is given below.

The information contained in the following table when using the basic indicator method:

	2 PP Amount	1 PP Amount	CP Amount	Total/No. of Years of Positive Gross	Rate (%)	Total
Gross Income	8,717,467	9,276,543	10,089,475	3	15	1,404,174
Value at operational risk (Total*12.5)						17,552,178

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016**h. The interest rate risk of the banking book items:**

Interest rate risk arising from the banking accounts is defined as negative effect risk on capital of the changes in market interest rates due to differences in interest settlement and re-pricing on, differences in interest-earning assets taking part in the banking book; interest-bearing liabilities; interest-bearing derivative transactions inclusive of the policies established by the Board of Directors, is managed within the framework of the strategies set by the Bank Asset-Liability Committee. Compliance with internal risk limits for banking portfolio is closely and continuously monitored by the Risk Management Department and Asset-Liability Committee and the measurement results are reported to the Board of Directors on a monthly basis.

Duration and sensitivity analysis are conducted on a monthly basis by the Bank in the scope of monitoring of interest rate risk arising from the banking books about Interest Rate Risk in the Banking Accounts from the Regulation on Measurement and Assessment of Standard Shock Method which is published in the Official Gazette No. 28034 dated 23 August 2011. In the duration analysis, the maturity gap between assets and liabilities of the balance sheet are determined by the calculation of the weighted average maturities based on the asset that sensitive to interest rate and liabilities and off-balance sheet transactions re-pricing period. In the interest rate risk sensitivity analysis, the influence of the various interest rate change scenarios to the economic value of the Bank's capital is examined.

The interest rate risk of the banking book item in accordance with the legal regulations is measured and monitored on a monthly basis within the scope of the Regulation about Measurement and Assessment of Interest Rate Risk in the Banking Accounts by Standard Shock Method. In the calculations committed due to the mentioned regulations, behavioral maturity modeling method is used for the deposits with low sensitivity to interest rate changes and demand deposits which is original maturities is longer than contractual maturities. In the core deposit analysis, the historical data of demand deposit is used and calculated the how much and which maturity would remain within the bank and these analysis is used as an input to not constitute a conflict of the legal provisions for quantifying the interest rate arising from banking book.

Currency	Applied Shock (+/- x basis point)	Revenue/Loss	Revenue/Shareholders' Equity - Loss/Shareholders' Equity
TL	(+) 500	(5,692,726)	(13.89)%
TL	(-) 400	5,506,426	13.43%
EUR	(+) 200	(328,521)	(0.80)%
EUR	(-) 200	372,124	0.91%
USD	(+) 200	161,844	0.40%
USD	(-) 200	(24,701)	(0.06)%
<b>Total (for Negative Shocks)</b>		<b>5,853,849</b>	<b>14.28%</b>
<b>Total (for Positive Shocks)</b>		<b>(5,859,403)</b>	<b>(14.29)%</b>

**XII. Explanations on Segment Reporting**

The Bank's operations are classified as corporate, commercial, retail and private banking, and treasury/investment banking.

The Bank provides services to the large corporations, SMEs and other trading companies through various financial media within the course of its corporate and commercial operations. Services such as project financing, operating and investment loans, deposit and cash management, credit cards, cheques and bills, foreign trade transactions and financing, letter of guarantees, letter of credits, forfeiting, foreign currency trading, bill collections, payrolls, investment accounts, tax collections and other banking services are provided for the aforementioned customer segments.

Retail banking services are comprised of individuals needs such as deposits, consumer loans, overdraft accounts, credit cards, bill collections, remittances, foreign currency trading, safe-deposit boxes, insurance, tax collections, and investment accounts and by other banking services. Private banking category, are comprised of any kind of financial and cash management related services provided for individuals within the high-income segment.

Treasury transactions are comprised of medium and long term funding tools such as securities trading, money market transactions, spot and forward TL and foreign currency trading, and derivative transactions such as forwards, swaps, futures and options, as well as syndications and securitizations.

The Bank's investments in associates and subsidiaries operating in the financial and non-financial sectors are evaluated within the context of investment banking. The details about the aforementioned investments are stated in Note I.h-Ii of Section Five.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

Statement of information related to business segmentation is given below.

Current Period	Corporate	Commercial	Retail	Private	Treasury/ Investment	Unallocated	Total
<b>OPERATING INCOME/EXPENSE</b>							
Interest Income							22,327,585
Interest Income from Loans	4,204,097	8,785,377	5,015,232	17,529		98,060	18,120,295
Interest Income from Banks					29,622		29,622
Interest Income from Securities					3,940,171		3,940,171
Other Interest Income					219,428	18,069	237,497
Interest Expense							11,490,304
Interest Expense on Deposits	1,279,632	1,322,750	3,365,660	1,064,572		539,994	7,572,608
Interest Expense on Funds Borrowed					787,204		787,204
Interest Expense on Money Market Transactions					1,639,215		1,639,215
Interest Expense on Securities Issued					1,469,170		1,469,170
Other Interest Expense						22,107	22,107
Net Interest Income							10,837,281
Net Fees and Commissions Income							2,840,357
Fees and Commissions Received	490,914	1,729,430	1,028,295	10,905		84,264	3,343,808
Fees and Commissions Paid						503,451	503,451
Dividend Income					682,673		682,673
Trading Income/Loss (Net)					(816,736)		(816,736)
Other Income	21,115	281,396	220,696	5	387,047	403,713	1,313,972
Provision For Loans and Other Receivables	222,203	1,210,647	600,231	23	151,193	413,344	2,597,641
Other Operating Expense	45,632	856,758	1,742,426	10,083		3,851,225	6,506,124
Income Before Tax							5,753,782
Tax Provision							1,052,576
<b>Net Period Profit</b>							<b>4,701,206</b>
<b>SEGMENT ASSETS</b>							
Financial Assets at FV Through P/L					2,584,967		2,584,967
Banks and Other Financial Institutions					2,229,080		2,229,080
Financial Assets Available for Sale					45,326,910		45,326,910
Loans	69,591,924	87,440,059	45,074,479	186,679		1,964,102	204,257,243
Held to Maturity Investments					5,357,340		5,357,340
Associates and Subsidiaries					10,442,397		10,442,397
Other						41,427,976	41,427,976
							<b>311,625,913</b>
<b>SEGMENT LIABILITIES</b>							
Deposits	25,304,219	37,639,974	84,826,681	17,918,532		11,670,570	177,359,976
Derivative Financial Liabilities Held for Trading					799,583		799,583
Funds Borrowed					30,884,697		30,884,697
Money Market Funds					20,592,835		20,592,835
Marketable Securities Issued <sup>(1)</sup>					27,395,217		27,395,217
Other Liabilities						11,088,015	11,088,015
Provisions						7,544,609	7,544,609
Shareholders' Equity						35,960,981	35,960,981
							<b>311,625,913</b>

<sup>(1)</sup> Includes Tier 2 subordinated bond which is classified on the balance sheet as subordinated loan.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

Prior Period	Corporate	Commercial	Retail	Private	Treasury/ Investment	Unallocated	Total
<b>OPERATING INCOME/EXPENSE</b>							
Interest Income							19,200,361
Interest Income from Loans	3,522,483	7,455,665	4,558,782	17,330		133,846	15,688,106
Interest Income from Banks					17,230		17,230
Interest Income from Securities					3,410,608		3,410,608
Other Interest Income					64,768	19,649	84,417
Interest Expense							10,214,805
Interest Expense on Deposits	841,348	1,066,648	2,840,009	987,963		642,055	6,378,023
Interest Expense on Funds Borrowed					754,852		754,852
Interest Expense on Money Market Transactions					1,690,336		1,690,336
Interest Expense on Securities Issued					1,359,913		1,359,913
Other Interest Expense						31,681	31,681
Net Interest Income							8,985,556
Net Fees and Commissions Income							2,388,802
Fees and Commissions Received	409,050	1,351,787	926,811	10,606		105,903	2,804,157
Fees and Commissions Paid						415,355	415,355
Dividend Income					554,940		554,940
Trading Income/Loss (Net)					(868,620)		(868,620)
Other Income	3,529	275,692	157,116	168	19,897	652,186	1,108,588
Prov. For Loans and Other Receivables	154,475	766,285	530,867	5	2,308	604,240	2,058,180
Other Operating Expense	43,866	763,701	1,565,086	9,639	154,266	3,790,831	6,327,389
Income Before Tax							3,783,697
Tax Provision							701,006
Net Period Profit							<b>3,082,691</b>
<b>SEGMENT ASSETS</b>							
Fin. Assets At Fair Value Through P/L					1,592,298		1,592,298
Banks and Other Financial Institutions					1,517,501		1,517,501
Financial Assets Available for Sale					40,860,360		40,860,360
Loans	56,611,813	77,481,838	40,792,717	196,007		2,851,381	177,933,756
Investments Held to Maturity					3,591,631		3,591,631
Associates and Subsidiaries					9,393,597		9,393,597
Other						40,828,441	40,828,441
							<b>275,717,584</b>
<b>SEGMENT LIABILITIES</b>							
Deposits	22,957,793	31,156,975	70,152,778	16,194,848		13,340,032	153,802,426
Derivative Financial Liabilities Held for Trading					927,974		927,974
Funds Borrowed					28,408,499		28,408,499
Money Market Funds					20,089,147		20,089,147
Marketable Securities Issued <sup>(1)</sup>					23,808,262		23,808,262
Other Liabilities						9,552,540	9,552,540
Provisions						7,093,746	7,093,746
Shareholders' Equity						32,034,990	32,034,990
							<b>275,717,584</b>

<sup>(1)</sup> Includes Tier 2 subordinated bond which is classified on the balance sheet as subordinated loan.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### SECTION FIVE: DISCLOSURES AND FOOTNOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

##### I. DISCLOSURES AND FOOTNOTES ON ASSETS

###### a. Cash and Central Bank of Turkey:

###### a.1. Information on balances with the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash in TL/Foreign Currency	1,988,153	1,393,818	1,875,166	766,653
Central Bank of Turkey	4,127,857	24,556,274	1,413,213	27,394,904
Other		360,526		202,589
<b>Total</b>	<b>6,116,010</b>	<b>26,310,618</b>	<b>3,288,379</b>	<b>28,364,146</b>

###### a.2. Information on balances with the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposit	4,127,857	4,288,059	1,413,213	3,535,218
Unrestricted Time Deposit				
Restricted Time Deposit		1,416,815		
Other <sup>(1)</sup>		18,851,400		23,859,686
<b>Total</b>	<b>4,127,857</b>	<b>24,556,274</b>	<b>1,413,213</b>	<b>27,394,904</b>

<sup>(1)</sup> The amount of reserve deposits held at the Central Bank of Turkey.

###### a.3. Information on reserve requirements:

As per the Communiqué no. 2013/15 "Reserve Deposits" of the Central Bank of the Republic of Turkey ("CBRT"), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 4% - 10.5% for TL deposits and other liabilities, between 8.5% - 12.5% for FC deposits and between 4.5% - 24.5% for other FC liabilities. Reserves are calculated and set aside every two weeks on Friday for 14-day periods. In accordance with the related communiqué, CBRT pays interests TL and USD reserves.

###### b. Information on Financial Assets at Fair Value through Profit and Loss:

###### b.1. Financial Assets at fair value through profit and loss, which are given as collateral or blocked:

As of 31 December 2016 and 31 December 2015, there are no financial assets at fair value through profit and loss, which are given as collateral or blocked.

###### b.2. Financial assets at fair value through profit and loss, which are subject to repurchase agreements:

Financial assets at fair value through profit and loss, which are subject to repurchase agreements as at 31 December 2016 are amounting to TL 277,234 (31 December 2015: TL 255,487).

###### c. Positive Differences on Derivative Financial Assets Held for Trading:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	2,019	145,131	26,102	42,347
Swap Transactions	19,987	1,775,354	97,633	1,037,301
Futures				
Options	910	16,048	857	23,580
Other				35,605
<b>Total</b>	<b>22,916</b>	<b>1,936,533</b>	<b>124,592</b>	<b>1,138,833</b>

###### d. Information on Banks:

###### d.1. Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic Banks	59,955	3,490	4,049	
Foreign Banks	123,027	2,042,608	83,839	1,429,613
Foreign Head Office and Branches				
<b>Total</b>	<b>182,982</b>	<b>2,046,098</b>	<b>87,888</b>	<b>1,429,613</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## d.2. Information on foreign banks:

	Unrestricted Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	972,927	396,370		
USA, Canada	162,257	152,395		
OECD Countries <sup>(1)</sup>	127,768	168,483		
Off-shore Banking Regions				
Other	605,720	631,596	296,963	164,608
<b>Total</b>	<b>1,868,672</b>	<b>1,348,844</b>	<b>296,963</b>	<b>164,608</b>

<sup>(1)</sup> OECD countries other than the EU countries, USA and Canada

## e. Information on Financial Assets Available for Sale:

## e.1. Information on financial assets available for sale, which are given as collateral or blocked:

Financial assets available for sale, which are given as collateral or blocked, amount to TL 8,332,081 as at 31 December 2016 (31 December 2015: TL 8,514,641).

## e.2. Information on financial assets available for sale, which are subject to repurchase agreements:

Financial assets available for sale, which are subject to repurchase agreements amount to TL 16,313,713 as at 31 December 2016 (31 December 2015: TL 19,483,143).

## e.3. Information on financial assets available for sale:

	Current Period	Prior Period
Debt Securities	46,462,292	41,329,639
Quoted on a Stock Exchange	34,697,575	28,782,681
Not-Quoted <sup>(1)</sup>	11,764,717	12,546,958
Share Certificates	125,276	290,552
Quoted on a Stock Exchange		
Not-Quoted	125,276	290,552
Value Increase/Impairment Losses (-)	1,463,752	936,879
Other	203,094	177,048
<b>Total</b>	<b>45,326,910</b>	<b>40,860,360</b>

<sup>(1)</sup> Refers to the debt securities, which are not quoted on the Stock Exchange or which are not traded, although quoted, on the Stock Exchange at the end of the related period.

## f. Information related to loans:

## f.1. Information on all types of loans and advances given to shareholders and employees of the Bank:

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct Lending to Shareholders				
Corporate Shareholders				
Individual Shareholders				
Indirect Lending to Shareholders				
Loans to Employees	227,424	41	241,557	75
<b>Total</b>	<b>227,424</b>	<b>41</b>	<b>241,557</b>	<b>75</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

f.2. Information about the first and second group loans and other receivables including loans that have been restructured or rescheduled, loans and receivables amended on conditions of contract:

	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables (Total)	Amendments on Conditions of Contract		Loans and Other receivables (Total)	Amendments on Conditions of Contract	
		Extension of the payment plan	Other		Extension of the payment plan	Other
<b>Cash Loans</b>						
Non-specialized loans	196,918,960	4,935,879	894,769	6,224,885	1,522,583	54,622
Corporation Loans	106,487,824	2,427,634		3,525,610	815,971 <sup>(4)</sup>	29,863
Export Loans	10,170,534	126,304		206,289	39,373	
Import Loans						
Loans Extended to Financial Sector	3,248,712			13,580		
Consumer Loans	38,497,560	2,085,289	890,666	1,397,130	161,713	24,160
Credit Cards	12,235,123			657,160	407,654	
Other	26,279,207	296,652	4,103	425,116	97,872 <sup>(4)</sup>	599
Specialized Loans						
Other Receivables						
<b>Total</b>	<b>196,918,960</b>	<b>4,935,879</b>	<b>894,769</b>	<b>6,224,885</b>	<b>1,522,583</b>	<b>54,622</b>

<sup>(4)</sup> The amount of TL 34,305 loans provided to maritime sector, TL 19,104 to tourism sector and TL 42,556 to energy sector which have extended payment plans within the scope of Temporary 6., 9. and 10. Substances of the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside.

As of 31 December 2016, negotiations between creditor banks and related sovereign institutions regarding the loans granted to a company amounting to TL 1,765,327 which are classified under "Performing Loans and Other Receivables" are underway and a positive outcome of these discussions is expected.

	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
<b>Number of Amendments Related to the Extension of the Payment Plan</b>		
Extended for 1 or 2 Times	4,677,798	935,120
Extended for 3, 4 or 5 Times	254,564	587,161
Extended for More than 5 Times	3,517	302

<sup>(4)</sup> The amount of TL 34,305 loans provided to maritime sector, TL 19,104 to tourism sector and TL 42,556 to energy sector which have extended payment plans within the scope of Temporary 6., 9. and 10. Substances of the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside.

	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
<b>The Time Extended via the Amendment on Payment Plan</b>		
0-6 Months	708,704	74,138
6 Months - 12 Months	371,590	109,001
1 - 2 Years	1,153,795	204,063
2 - 5 Years	1,856,328	827,620
5 Years and More	845,462	307,761

<sup>(4)</sup> The amount of TL 34,305 loans provided to maritime sector, TL 19,104 to tourism sector and TL 42,556 to energy sector which have extended payment plans within the scope of Temporary 6., 9. and 10. Substances of the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside.

f.3. Information on Maturity analysis of cash loans

	Performing Loans and Other Receivables		Loans under Follow-Up and Other Receivables	
	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms
<b>Short-term Loans and Other Receivables</b>	<b>45,114,147</b>	<b>1,450,614</b>	<b>1,004,648</b>	<b>548,008</b>
Non-Specialization Loans	45,114,147	1,450,614	1,004,648	548,008
Specialization Loans				
Other Receivables				
<b>Medium and Long-term Loans and Other Receivables</b>	<b>151,804,813</b>	<b>4,380,034</b>	<b>5,220,237</b>	<b>1,029,197</b>
Non-Specialization Loans	151,804,813	4,380,034	5,220,237	1,029,197
Specialization Loans				
Other Receivables				

<sup>(4)</sup> The amount of TL 34,305 loans provided to maritime sector, TL 19,104 to tourism sector and TL 42,556 to energy sector which have extended payment plans within the scope of Temporary 6., 9. and 10. Substances of the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## f.4. Information on consumer loans, retail credit cards, personnel loans and personnel credit cards:

	Short-Term	Medium and Long-Term	Interest and Income Accruals	Total
Consumer Loans - TL	715,765	38,186,617	257,346	39,159,728
Real Estate Loans	28,902	17,546,422	97,946	17,673,270
Vehicle Loans	11,294	678,962	5,339	695,595
General Purpose Consumer Loans	675,569	19,961,233	154,061	20,790,863
Other Consumer Loans				
Consumer Loans - FC Indexed		6,143	13,720	19,863
Real Estate Loans		6,143	13,720	19,863
Vehicle Loans				
General Purpose Consumer Loans				
Other Consumer Loans				
Consumer Loans - FC				
Real Estate Loans				
Vehicle Loans				
General Purpose Consumer Loans				
Other Consumer Loans				
Retail Credit Cards - TL	10,035,113	489,048	39,444	10,563,605
With Installments	4,080,110	489,048		4,569,158
Without Installments	5,955,003		39,444	5,994,447
Retail Credit Cards - FC	5,317			5,317
With Installments				
Without Installments	5,317			5,317
Personnel Loans - TL	13,176	96,889	868	110,933
Real Estate Loans		3,729	68	3,797
Vehicle Loans	39	1,079	7	1,125
General Purpose Consumer Loans	13,137	92,081	793	106,011
Other Consumer Loans				
Personnel Loans - FC Indexed				
Real Estate Loans				
Vehicle Loans				
General Purpose Consumer Loans				
Other Consumer Loans				
Personnel Loans - FC				
Real Estate Loans				
Vehicle Loans				
General Purpose Consumer Loans				
Other Consumer Loans				
Personnel Credit Cards - TL	108,131	579	407	109,117
With Installments	41,374	579		41,953
Without Installments	66,757		407	67,164
Personnel Credit Cards - FC	108			108
With Installments				
Without Installments	108			108
Overdraft Accounts - TL (real persons)	595,147		9,019	604,166
Overdraft Accounts - FC (real persons)				
<b>Total</b>	<b>11,472,757</b>	<b>38,779,276</b>	<b>320,804</b>	<b>50,572,837</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### f.5. Information on commercial installments loans and corporate credit cards:

	Short-Term	Medium and Long Term	Interest and Income Accruals	Total
Commercial Loans With Installments - TL	1,705,699	28,893,465	317,808	30,916,972
Real Estate Loans	5,227	1,387,261	10,314	1,402,802
Vehicle Loans	75,178	3,121,238	23,720	3,220,136
General Purpose Commercial Loans	1,625,294	24,384,966	283,774	26,294,034
Other Commercial Loans				
Commercial Loans With Installments - FC Indexed	113,713	2,261,746	566,210	2,941,669
Real Estate Loans		75,668	32,327	107,995
Vehicle Loans	8,278	342,799	73,614	424,691
General Purpose Commercial Loans	105,435	1,843,279	460,269	2,408,983
Other Commercial Loans				
Commercial Loans With Installments - FC		2,161,151	7,738	2,168,889
Real Estate Loans				
Vehicle Loans				
General Purpose Commercial Loans		2,161,151	7,738	2,168,889
Other Commercial Loans				
Corporate Credit Cards - TL	2,192,841	1,083	20,212	2,214,136
With Installments	686,179	1,083		687,262
Without Installments	1,506,662		20,212	1,526,874
Corporate Credit Cards - FC				
With Installments				
Without Installments				
Overdraft Accounts - TL (corporate)	1,192,251		64,643	1,256,894
Overdraft Accounts - FC (corporate)				
<b>Total</b>	<b>5,204,504</b>	<b>33,317,445</b>	<b>976,611</b>	<b>39,498,560</b>

#### f.6. Allocation of loan by borrowers:

	Current Period	Prior Period
Public Sector	1,836,843	1,791,064
Private Sector	202,420,400	176,142,692
<b>Total</b>	<b>204,257,243</b>	<b>177,933,756</b>

#### f.7. Domestic and foreign loans:

	Current Period	Prior Period
Domestic Loans	200,042,742	175,393,876
Foreign Loans	4,214,501	2,539,880
<b>Total</b>	<b>204,257,243</b>	<b>177,933,756</b>

#### f.8. Loans granted to subsidiaries and associates:

	Current Period	Prior Period
Direct Loans Granted to Subsidiaries and Associates	716,343	920,545
Indirect Loans Granted to Subsidiaries and Associates		
<b>Total</b>	<b>716,343</b>	<b>920,545</b>

#### f.9. Specific provisions provided against loans:

	Current Period	Prior Period
Specific Provisions		
Loans and Receivables with Limited Collectability	136,885	113,742
Loans and Receivables with Doubtful Collectability	594,233	464,423
Uncollectible Loans and Receivables	3,099,839	2,128,388
<b>Total</b>	<b>3,830,957</b>	<b>2,706,553</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## f.10. Information on non-performing loans (Net):

## f.10.1. Information on loans and other receivables included in non-performing loans, which are restructured or rescheduled:

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
<b>Current Period</b>			
(Gross amounts before the specific provisions)	49,144	76,929	74,525
Restructured Loans and Other Receivables			
Rescheduled Loans and Other Receivables	49,144	76,929	74,525
<b>Prior Period</b>			
(Gross amounts before the specific provisions)	40,341	59,080	56,412
Restructured Loans and Other Receivables			
Rescheduled Loans and Other Receivables	40,341	59,080	56,412

## f.10.2. Movement of total non-performing loans:

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
<b>Prior Period Ending Balance</b>	554,262	921,039	2,128,388
Corporate and Commercial Loans	312,809	530,828	1,361,167
Retail Loans	151,235	235,456	366,208
Credit Cards	90,218	154,755	338,221
Other			62,792
<b>Additions (+)</b>	3,152,272	47,754	96,147
Corporate and Commercial Loans	1,997,918	35,301	74,592
Retail Loans	705,064	3,664	2,869
Credit Cards	449,287	8,789	1,584
Other	3		17,102
<b>Transfers from Other NPL Categories (+)</b>		2,353,937	1,838,920
Corporate and Commercial Loans		1,432,174	1,126,776
Retail Loans		569,323	435,351
Credit Cards		352,440	276,793
Other			
<b>Transfers to Other NPL Categories (-)</b>	2,423,320	1,769,537	
Corporate and Commercial Loans	1,501,557	1,057,393	
Retail Loans	569,323	435,351	
Credit Cards	352,440	276,793	
Other			
<b>Collections (-)<sup>(1)</sup></b>	607,529	384,354	576,626
Corporate and Commercial Loans	340,609	173,236	303,640
Retail Loans	157,026	128,683	175,873
Credit Cards	109,891	82,435	93,075
Other	3		4,038
<b>Write-Offs (-)<sup>(1)</sup></b>		8	386,990
Corporate and Commercial Loans			162,997
Retail Loans		7	91,289
Credit Cards		1	132,689
Other			15
<b>Current Period Ending Balance</b>	675,685	1,168,831	3,099,839
Corporate and Commercial Loans	468,561	767,674	2,095,898
Retail Loans	129,950	244,402	537,266
Credit Cards	77,174	156,755	390,834
Other			75,841
<b>Specific Provisions (-)</b>	136,885	594,233	3,099,839
Corporate and Commercial Loans	94,705	392,905	2,095,898
Retail Loans	26,686	122,807	537,266
Credit Cards	15,494	78,521	390,834
Other			75,841
<b>Net Balance on Balance Sheet</b>	538,800	574,598	

<sup>(1)</sup> In the current period, a portfolio of receivables from non-performing loans amounting to TL 232,150 is sold to Final Varlık Yönetimi A.Ş. with a value of TL 28,989 on 5 December 2016 and another portfolio of receivables from non-performing loans amounting to TL 171,188 is sold to Sümer Varlık Yönetimi A.Ş. with a value of TL 5,493 on 7 December 2016.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### f.10.3. Information on foreign currency non-performing loans and other receivables:

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
<b>Current Period:</b>			
Period Ending Balance	111,561	101,495	654,887
Specific Provisions (-)	22,469	58,969	654,887
Net Balance on Balance Sheet <sup>(1)</sup>	89,092	42,526	
<b>Prior Period:</b>			
Period Ending Balance	23,156	161,653	398,438
Specific Provisions (-)	5,114	81,562	398,438
Net Balance on Balance Sheet <sup>(1)</sup>	18,042	80,091	

<sup>(1)</sup> In addition to non-performing loans granted as foreign currency, it also includes loans followed under non performing loans TL accounts.

#### f.10.4. Information on gross and net non-performing loans and receivables as per customer categories:

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
<b>Current Period (Net)</b>	538,800	574,598	
Loans to Individuals and Corporate (Gross)	675,685	1,168,831	3,023,998
Specific Provisions (-)	136,885	594,233	3,023,998
Loans to Individuals and Corporate (Net)	538,800	574,598	
Banks (Gross)			
Specific Provisions (-)			
Banks (Net)			
Other Loans and Receivables (Gross)			75,841
Specific Provisions (-)			75,841
Other Loans and Receivables (Net)			
<b>Prior Period (Net)</b>	440,520	456,616	
Loans to Individuals and Corporate (Gross)	554,262	921,039	2,065,596
Specific Provisions (-)	113,742	464,423	2,065,596
Loans to Individuals and Corporate (Net)	440,520	456,616	
Banks (Gross)			
Specific Provisions (-)			
Banks (Net)			
Other Loans and Receivables (Gross)			62,792
Specific Provisions (-)			62,792
Other Loans and Receivables (Net)			

#### f.10.5. Main principles of liquidating for uncollectible loans and other receivables

In order to ensure the liquidation of non-performing loans, all possibilities evaluated to ensure maximum collection according to the legislation. First of all, administrative initiatives are taken to deal with the borrower. Collection through legal proceedings used if there is no possibility of collection and configuration with the interviews for other receivables.

#### f.10.6. Information on write-off policy

The Bank's general policy for write-offs of loans and receivables under follow-up is to write of such loans and receivables that are proven to be uncollectible in legal follow-up process within the instructions of Tax Procedure Law.

#### g. Held to Maturity Investments:

##### g.1. Held to maturity investments given as collateral or blocked:

Held to maturity investments given as collateral or blocked amount to TL 1,042,371 as at 31 December 2016 (31 December 2015: TL 146,257).

##### g.2. Held to maturity investments subject to repurchase agreements:

Held to maturity investments, which are subject to repurchase agreements amount to TL 2,518,444 as at 31 December 2016 (31 December 2015: TL 2,008,853).

##### g.3. Information on government securities held to maturity:

	Current Period	Prior Period
Government Bonds	5,049,923	3,414,877
Treasury Bills		
Other Public Debt Securities		
<b>Total</b>	<b>5,049,923</b>	<b>3,414,877</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## g.4. Information on held-to-maturity investments:

	Current Period	Prior Period
Debt Securities	5,357,340	3,591,631
Quoted on a Stock Exchange	5,049,923	3,267,997
Not Quoted <sup>(1)</sup>	307,417	323,634
Impairment Losses (-)		
<b>Total</b>	<b>5,357,340</b>	<b>3,591,631</b>

<sup>(1)</sup> Refers to the debt securities, which are not quoted on the Stock Exchange or which are not traded, although quoted, on the Stock Exchange at the end of the related period.

## g.5. Movement of held to maturity investments within the year:

	Current Period	Prior Period
Beginning Balance	3,591,631	1,301,104
Foreign Exchange Differences Arising on Monetary Assets	5,872	7,525
Purchases During the Year <sup>(1)</sup>	2,508,461	3,712,983
Disposals through Sales and Redemption	(845,167)	(1,477,766)
Impairment Losses (-)		
Valuation effect	96,543	47,785
<b>Balance at the End of the Period</b>	<b>5,357,340</b>	<b>3,591,631</b>

<sup>(1)</sup> The government bonds with the nominal value of TL 1,003,492 are reclassified to held to maturity investment from available for sale investments in current period.

## h. Information on associates (Net):

## h.1. General information on associates:

No.	Title	Address (City/Country)	Bank's Share Percentage-If Different Voting Percentage (%)	Bank's Risk Group Share Percentage (%)
1-	Arap Türk Bankası A.Ş.	Istanbul/TURKEY	20.58	20.58
2-	Bankalararası Kart Merkezi A.Ş.	Istanbul/TURKEY	9.98	9.98
3-	Kredi Kayıt Bürosu A.Ş.	Istanbul/TURKEY	9.09	9.09

h.2. Information on financial statements of associates in the above order <sup>(1)</sup>:

No.	Total Assets	Shareholders' Equity	Total Tangible Assets	Interest Income <sup>(2)</sup>	Securities Income	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1-	5,098,787	654,089	25,616	205,861	194	63,229	72,493	
2-	68,358	29,660	42,971	1,019		3,869	3,490	
3-	154,333	113,004	81,803	4,870	7	37,774	21,834	

<sup>(1)</sup> Indicates the financial data of Arap Türk Bankası A.Ş. as of 31 December 2016, the financial data of other associates as at 31 December 2015.

<sup>(2)</sup> Includes interest income on securities.

## h.3. Movement of investments in associates:

	Current Period	Prior Period
<b>Beginning Balance</b>	<b>128,246</b>	<b>783,195</b>
Movements During the Period		
Purchases		
Bonus Shares Acquired		
Dividends Received from Current Year Profit		
Sales		(813,950)
Revaluation Increase		
Impairment		159,001
<b>Balance at the end of the period</b>	<b>128,246</b>	<b>128,246</b>
Capital commitments		
Contribution in equity at the end of the period (%)		

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### h.4. Sectoral information on financial associates and the related carrying amounts:

Associates	Current Period	Prior Period
Banks	124,575	124,575
Insurance Companies		
Factoring Companies		
Leasing Companies		
Finance Companies		
Other Financial Participations		

h.5. Associates quoted on a stock exchange: None.

h.6. Associates excluded from the current period: None.

h.7. Associates acquired in the current period: None.

#### i. Information on subsidiaries (Net):

##### i.1. Information on equity adequacy of major subsidiaries

	Türkiye Sınai Kalkınma Bankası A.Ş.	İş Gayrimenkul Yatırım Ortaklığı A.Ş.	Insurance/ Reinsurance Companies	İş Finansal Kiralama A.Ş.	İş Yatırım Menkul Değerler A.Ş.
<b>COMMON EQUITY TIER I CAPITAL</b>					
Common Equity Tier I Capital Before Deductions	3,045,934	3,161,346	2,226,808	802,166	574,429
Deductions from Common Equity Tier I Capital	124,225	284	58,379	2,031	48,288
<b>Total Common Equity Tier I Capital</b>	<b>2,921,709</b>	<b>3,161,062</b>	<b>2,168,429</b>	<b>800,135</b>	<b>526,141</b>
<b>ADDITIONAL TIER I CAPITAL</b>					
Additional Tier I Capital before Deductions					
Deductions from Additional Tier I Capital	380	189	18,298	1,036	22,838
<b>Total Capital</b>	<b>2,921,329</b>	<b>3,160,873</b>	<b>2,150,131</b>	<b>799,099</b>	<b>503,303</b>
<b>TIER II CAPITAL</b>					
Tier II Capital Before Deductions	178,463				
Deduction from Tier II Capital (-)					
<b>Total Additional Tier II Capital</b>	<b>178,463</b>				
<b>Total Capital and Tier II Capital</b>	<b>3,099,792</b>	<b>3,160,873</b>	<b>2,150,131</b>	<b>799,099</b>	<b>503,303</b>
Deductions from Total Capital and Additional Tier I Capital (-)	369				
<b>CAPITAL</b>	<b>3,099,423</b>	<b>3,160,873</b>	<b>2,150,131</b>	<b>799,099</b>	<b>503,303</b>

##### i.2. General information on subsidiaries <sup>(1)</sup>:

Sıra No	Title	Address (City/Country)	Bank's Share Percentage-if Different, Voting Rights (%)	Bank's Risk Group Share Percentage (%)
1-	Anadolu Hayat Emeklilik A.Ş.	İstanbul/TURKEY	62.00	83.00
2-	Camiş Yatırım Holding A.Ş.	İstanbul/TURKEY	99.97	100.00
3-	JSC İşbank	Moscow/RUSSIA	100.00	100.00
4-	JSC İşbank Georgia	Tbilisi/GEORGIA	100.00	100.00
5-	İş Finansal Kiralama A.Ş.	İstanbul/TURKEY	27.79	57.39
6-	İş Gayrimenkul Yatırım Ortaklığı A.Ş.	İstanbul/TURKEY	42.23	58.04
7-	İş Merkezleri Yönetim ve İşletim A.Ş.	İstanbul/TURKEY	86.33	100.00
8-	İş Net Elektronik Bilgi Üretim Dağıtım Ticaret ve İletişim Hizmetleri A.Ş.	İstanbul/TURKEY	94.65	100.00
9-	İş Yatırım Menkul Değerler A.Ş.	İstanbul/TURKEY	65.65	70.69
10-	İşbank AG	Frankfurt-Main/GERMANY	100.00	100.00
11-	Kültür Yayınları İş-Türk A.Ş.	İstanbul/TURKEY	99.17	100.00
12-	Milli Reasürans T.A.Ş.	İstanbul/TURKEY	76.64	77.06
13-	Nemtaş Nemrut Liman İşletmeleri A.Ş.	İzmir/TURKEY	99.81	100.00
14-	Trakya Yatırım Holding A.Ş.	İstanbul/TURKEY	65.34	100.00
15-	Türkiye Sınai Kalkınma Bankası A.Ş.	İstanbul/TURKEY	40.52	50.00
16-	Türkiye Şişe ve Cam Fabrikaları A.Ş.	İstanbul/TURKEY	65.47	73.75

<sup>(1)</sup> Within the resolution of the Board of Directors of the Bank dated 25 December 2015, the purchased free float shares of listed subsidiaries namely; T. Şişe ve Cam Fabrikaları A.Ş., Türkiye Sınai Kalkınma Bankası A.Ş., Anadolu Hayat Emeklilik A.Ş., İş Finansal Kiralama A.Ş., İş Gayrimenkul Yatırım Ortaklığı A.Ş. and İş Yatırım Menkul Değerler A.Ş., which are booked under "Financial Assets Held For Trading" account are not included.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016i.3. Financial statement information related to subsidiaries in the above order <sup>(1)</sup>:

№	Total Assets	Shareholders' Equity	Total Tangible Assets	Interest Income <sup>(2)</sup>	Securities Income	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value	Additional Shareholders' Equity Required
1-	14,397,472	866,644	193,881	195,546	32,930	191,257	145,883	2,177,520	
2-	178,734	174,978	176,067	251	23	(9,634)	39,833		
3-	791,479	226,915	58,297	41,385	2,148	(11,539)	(26,582)		
4-	365,266	41,154	3,364	19,051		850	462		
5-	7,479,986	830,203	20,918	453,579	2,611	110,827	87,264	668,137	
6-	4,887,020	3,161,346	3,743,702	8,938	877	420,511	555,933	1,326,000	
7-	74,164	30,489	3,312	3,593	83	18,403	7,662		
8-	86,725	70,252	17,904	1053	9730	21,880	11,205		
9-	6,517,901	880,326	103,294	401,154	68,699	33,724	22,408	448,010	
10-	5,163,780	458,899	74,256	115,470	8,551	(35,470)	10,206		
11-	22,162	14,237	629			2,375	1,534		
12-	2,822,480	1,335,907	490,521	114,015	28,834	129,243	130,243		
13-	514,363	264,890	380,270	2,301	3887	(54,167)	(33,557)		
14-	170,970	128,589	9,142	435	(4)	(47,987)	(9,217)		
15-	24,875,486	3,143,053	465,749	1,409,679	18,611	435,913	410,590	2,898,700	
16-	17,324,288	10,644,038	8,504,437	77,897	15	638,428	638,558	7,794,100	

<sup>(1)</sup> Indicates financial data of JSC İşbank Georgia, İşbank AG., Anadolu Hayat Emeklilik A.Ş., İş Finansal Kiralama A.Ş., İş Gayrimenkul Yatırım Ortaklığı A.Ş., İş Yatırım Menkul Değerler A.Ş., Milli Reasürans T.A.Ş., Türkiye Sınai Kalkınma Bankası A.Ş. are as at 31 December 2016. Türkiye Şişe ve Cam Fabrikaları A.Ş. as at 30 September 2016 and the financial data of other companies are as of 31 December 2015.

<sup>(2)</sup> Includes interest income on securities.

## i.4. Movement of investments in subsidiaries:

	Current Period	Prior Period
Balance at the Beginning of the Period	9,265,351	8,841,777
Movements in the Period		
Purchases <sup>(1)</sup>	318,509	486,663
Bonus Shares Acquired		
Dividends Received from Current Year Profit		
Sales		
Revaluation Surplus <sup>(2)</sup>	870,883	(63,089)
Impairment <sup>(3)</sup>	(140,592)	
<b>Balance at the End of the Period</b>	<b>10,314,151</b>	<b>9,265,351</b>
Capital Commitments		
Contribution in equity at the end of the period (%)		

<sup>(1)</sup> The amount comprised of capital increase -from profits- through issuance of bonus shares in various subsidiaries in the current period.

<sup>(2)</sup> These amounts indicate the increase and decrease in the stock market values of the subsidiaries quoted on the stock exchange.

<sup>(3)</sup> The portion of TL 149,494 provision of impairment loss which has been recognized for Nemaş Nemrut Liman İşletmeleri A.Ş. and the portion of TL 8,902 is reversal of impairment loss which had been recognized for İş Net Elektronik Bilgi Üretim Dağıtım Ticaret ve İletişim Hizmetleri A.Ş. for the prior periods.

## i.5. Sectoral information on financial subsidiaries and the related carrying amounts:

Subsidiaries	Current Period	Prior Period
Banks	1,731,014	1,611,609
Insurance Companies	1,833,794	2,042,486
Factoring Companies		
Leasing Companies	185,703	119,241
Finance Companies		
Other Financial Subsidiaries	854,167	828,223
<b>Total</b>	<b>4,604,678</b>	<b>4,601,559</b>

## i.6. Subsidiaries quoted on stock exchange:

	Current Period	Prior Period
Traded on domestic stock exchanges	8,667,352	7,500,929
Traded on foreign stock exchanges		
<b>Total</b>	<b>8,667,352</b>	<b>7,500,929</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

i.7. Subsidiaries disposed of in the current period: None.

i.8. Subsidiaries acquired in the current period: None

#### j. Information on jointly controlled entities:

There are no jointly controlled entities of the Bank.

#### k. Information regarding finance lease receivables of the Bank (Net):

The Bank has no finance lease receivables.

#### l. Information on derivative financial assets held for risk management:

The Bank has no derivative financial assets held for risk management.

#### m. Information on tangible assets <sup>(1)</sup> (net):

	Real Estates	Leased Tangible Assets	Vehicles	Other Tangible Assets	Total
<b>Prior Period</b>					
Cost	3,694,315	12,837	15,896	2,068,071	5,791,119
Accumulated Depreciation	(11,672)		(11,162)	(1,418,006)	(1,440,840)
<b>Net Book Value</b>	<b>3,682,643</b>	<b>12,837</b>	<b>4,734</b>	<b>650,065</b>	<b>4,350,279</b>
<b>Current Period End:</b>					
Net Book Value at the Beginning of the Period	3,682,643	12,837	4,734	650,065	4,350,279
Change During the Period (Net) <sup>(2)</sup>	(17,963)	96,961	2,160	166,613	247,771
Depreciation	(12,385)		(1,636)	(195,694)	(209,715)
Impairment <sup>(2)</sup>	(2,419)				(2,419)
Net Currency Translation Differences <sup>(2)</sup>			(79)	(1,485)	(1,564)
Cost at the Period End	3,672,039	109,798	17,003	2,203,791	6,002,631
Accumulated Depreciation at the Period End	(22,163)		(11,824)	(1,584,292)	(1,618,279)
<b>Closing Net Book Value</b>	<b>3,649,876</b>	<b>109,798</b>	<b>5,179</b>	<b>619,499</b>	<b>4,384,352</b>

<sup>(1)</sup> As at the balance sheet date, the Bank's book value of tangible assets acquired through financial leasing TL 8 (31 December 2015: TL 24), and there is no addition in the current period. Book value of tangible fixed assets which is obtained from receivables during the year is TL 170,156 (31 December 2015: TL 127,932)

<sup>(2)</sup> The balance includes the movements in cost and accumulated depreciation items.

#### n. Information on Intangible Assets:

	Current Period	Prior Period
Net Book Value at the Beginning of the Period	353,908	274,107
Change During the Period (Net) <sup>(1)</sup>	262,305	257,464
Depreciation	(242,181)	(177,583)
Impairment		
Net Currency Translation Differences <sup>(1)</sup>	160	(80)
Cost at the Period End	1,255,400	992,960
Accumulated Depreciation at Period End	881,208	639,052
<b>Closing Net Book Value</b>	<b>374,192</b>	<b>353,908</b>

<sup>(1)</sup> The balance includes the movements in cost and accumulated depreciation items.

#### o. Information on investment property:

The Bank has not any investment properties.

#### p. Information on deferred tax asset:

As at 31 December 2016, the Bank has deferred tax asset amounting to TL 515,899. Such deferred tax asset is calculated based on the temporary differences between the book value of the Bank's assets and liabilities and their tax basis measured as per the prevailing tax regulation. When the items comprising the temporary differences are followed under equity, the related tax asset/liability is directly recognized under equity items.

	Current Period	Prior Period
Deferred Tax (Asset)/Liability:		
Tangible and Intangible Assets	150,383	141,277
Provisions <sup>(1)</sup>	(705,442)	(647,882)
Valuation of Financial Assets	50,759	12,667
Other	(11,599)	19,228
<b>Net Deferred Tax (Asset)/Liability:</b>	<b>(515,899)</b>	<b>(474,710)</b>

<sup>(1)</sup> Comprised of employee termination benefits, actual and technical deficits of the pension fund, the provisions for credit card bonus points, and other provisions.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

The Movement of deferred tax assets are as follows:

	Current Period	Prior Period
Balance at Beginning of Period	474,710	526,714
Deferred Tax Income/(Expense) (Net)	(162,580)	(308,856)
Deferred tax under Equity Accounting	203,738	256,993
Exchange Difference	31	(141)
<b>Deferred Tax Asset</b>	<b>515,899</b>	<b>474,710</b>

## r. Information on assets held for sale and discontinued operations:

	Current Period	Prior Period
Balance at the Beginning of the Period	42,929	60,361
Transfers (Net)	38,608	(16,752)
Disposals (Net)	(1,606)	(680)
Impairment Losses (-)		
<b>Balance at the End of the Period</b>	<b>79,931</b>	<b>42,929</b>

The Bank has no discontinued operations. The assets classified as "Assets Held for Sale" consist of real estates. Those real estates subject to sale are announced on the Bank's web site. Announcements about the real estates subject to sale are also made by means of newspaper advertisements and similar media.

## s. Information on Other Assets:

The "other assets" item of the balance sheet does not exceed 10% of total assets.

## II. DISCLOSURES AND FOOTNOTES ON LIABILITIES

## a. Information on Deposits:

## a.1. The maturity structure of deposits (Current period):

	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6 Months to 1 Year	1 Year and Over	Accumulated Deposits	Total
Savings Deposits	12,432,670		2,618,575	44,429,588	2,038,437	483,525	444,337	5,976	62,453,108
Foreign Currency Deposits	17,352,599		9,603,962	37,130,770	3,184,598	2,293,437	10,572,624	830	80,138,820
Residents in Turkey	15,411,009		8,490,957	32,096,068	2,520,941	1,009,192	2,674,641	778	62,203,586
Residents Abroad	1,941,590		1,113,005	5,034,702	663,657	1,284,245	7,897,983	52	17,935,234
Public Sector Deposits	262,506		12,347	26,636	2,047	68	30		303,634
Commercial Deposits	7,980,269		4,423,097	8,844,307	462,280	162,582	55,186		21,927,721
Other Institutions Deposits	359,814		171,854	1,515,076	1,190,371	1,137	3,267		3,241,519
Precious Metals Deposits	2,484,982					329,301	18,545		2,832,828
Interbank Deposits	2,726,093		1,210,297	1,539,559	62,033	667,428	256,936		6,462,346
The Central Bank of the Republic of Turkey	9								9
Domestic Banks	3,514		893,649	261,714			2,186		1,161,063
Foreign Banks	2,049,719		316,648	1,277,845	62,033	667,428	254,750		4,628,423
Participations Banks	672,851								672,851
Other									
<b>Total</b>	<b>43,598,933</b>		<b>18,040,132</b>	<b>93,485,936</b>	<b>6,939,766</b>	<b>3,937,478</b>	<b>11,350,925</b>	<b>6,806</b>	<b>177,359,976</b>

## a.2. The maturity structure of deposits (Prior period):

	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6 Months to 1 Year	1 Year and Over	Accumulated Deposits	Total
Savings Deposits	9,988,504		2,095,984	37,743,923	2,050,615	304,894	381,872	3,000	52,568,792
Foreign Currency Deposits	15,084,809		8,307,119	35,250,474	3,600,919	2,879,644	6,997,745	588	72,121,298
Residents in Turkey	13,577,851		7,138,356	30,774,396	2,577,456	593,169	1,950,509	581	56,612,318
Residents Abroad	1,506,958		1,168,763	4,476,078	1,023,463	2,286,475	5,047,236	7	15,508,980
Public Sector Deposits	536,863		10,475	19,631	2,379	210	32		569,590
Commercial Deposits	6,287,759		1,999,838	5,757,264	1,704,659	66,037	18,901		15,834,458
Other Institutions Deposits	256,734		44,558	1,287,059	1,495,502	886	3,199		3,087,938
Precious Metals Deposits	1,653,919					238,250	14,000		1,906,169
Interbank Deposits	874,677		2,680,828	1,539,946	214,293	197,172	2,207,265		7,714,181
The Central Bank of the Republic of Turkey	16								16
Domestic Banks	2,783		2,186,759	336,808	2,055				2,528,405
Foreign Banks	666,716		494,069	1,203,138	212,238	197,172	2,207,265		4,980,598
Participations Banks	205,162								205,162
Other									
<b>Total</b>	<b>34,683,265</b>		<b>15,138,802</b>	<b>81,598,297</b>	<b>9,068,367</b>	<b>3,687,093</b>	<b>9,623,014</b>	<b>3,588</b>	<b>153,802,426</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### a.3. Savings deposits which are under the guarantee of Savings Deposits Insurance Fund exceeding the insurance limit:

Savings Deposits	Under the Guarantee of Savings Deposits Insurance Fund		Exceeding the Limit of Deposit Insurance Fund	
	Current Period	Prior Period	Current Period	Prior Period
Savings Deposits	32,081,971	28,089,774	29,729,980	23,980,079
Foreign Currency Savings Deposits	15,020,817	14,553,082	36,013,657	31,251,723
Other Deposits in the Form of Savings Deposits	1,541,203	1,161,789	1,171,209	729,718
Foreign Branches' Deposits Under Foreign Authorities' Insurance	1,544,869	1,236,677	338,990	222,488
Off-shore Banking Regions' Deposits Under Foreign Authorities Insurance			36,739	136,293

#### a.4. Savings deposits which are not under the guarantee of deposit insurance fund:

	Current Period	Prior Period
Foreign Branches' Saving Deposits and Other Accounts	375,729	358,781
Deposits and Other Accounts held by Main Shareholders and their Relatives		
Deposits and Other Accounts of the Chairman and Members of Board of Directors, Chief Executive Officer, Senior Executive Officers and their Relatives	14,922	11,586
Deposits and Other Accounts Covered by Assets Generated Through the Offenses Mentioned in Article 282 of the Turkish Criminal Code No.5237 and Dated 26 September 2004		
Deposits in the Banks to be Engaged Exclusively in Off-shore Banking in Turkey		

#### b. Information on Derivative Financial Liabilities Held for Trading:

Negative differences on derivative financial liabilities held for trading:

Derivative Financial Liabilities Held for Trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	112,426	69,408	20,727	79,447
Swap Transactions	263,490	284,804	282,449	500,785
Futures				
Options	853	33,666	1,187	43,379
Other		34,936		
<b>Total</b>	<b>376,769</b>	<b>422,814</b>	<b>304,363</b>	<b>623,611</b>

#### c. Information on Funds Borrowed:

##### c.1. Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Funds borrowed from the Central Bank of Turkey		356,271		
Domestic banks and Institutions	328,801	523,563	291,572	388,954
Foreign banks, institutions and funds	853,286	28,822,776	2,360,371	25,367,602
<b>Total</b>	<b>1,182,087</b>	<b>29,702,610</b>	<b>2,651,943</b>	<b>25,756,556</b>

##### c.2. Maturity analysis of funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	619,530	3,700,895	1,267,478	2,894,800
Medium and Long-term	562,557	26,001,715	1,384,465	22,861,756
<b>Total</b>	<b>1,182,087</b>	<b>29,702,610</b>	<b>2,651,943</b>	<b>25,756,556</b>

##### c.3. Information on funds borrowed:

Information on funds received through syndicated loans and securitization deals, which take a significant place among funds borrowed, are given below.

Syndicated loans:

Date of Use	Funds Borrowed	Maturity
May 2016	USD 462,000,000 + EUR 836,000,000	1 year
September 2016	USD 302,000,000 + EUR 661,000,000	1 year

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## Securitization deals:

The Bank obtained funds by way of putting on securitization deals all its claims and receivables based on diversified payment rights in USD, EUR and GBP through TIB Diversified Payment Rights Finance Company.

Information on funds received through securitization is given below:

Date	Special Purpose Vehicle (SPV)	Amount	Final Maturity	Remaining Debt Amount as at 31 December 2016
October 2011	TIB Diversified Payment Rights Finance Company	EUR 60,000,000	7 years	EUR 24,000,000
June 2012	TIB Diversified Payment Rights Finance Company	USD 225,000,000	5 years	USD 56,249,997
June 2012	TIB Diversified Payment Rights Finance Company	EUR 125,000,000	12 years	EUR 96,875,000
December 2013	TIB Diversified Payment Rights Finance Company	USD 50,000,000	5 years	USD 33,333,333
December 2013	TIB Diversified Payment Rights Finance Company	EUR 185,000,000	5-12 years	EUR 135,000,000
December 2014	TIB Diversified Payment Rights Finance Company	USD 250,000,000	5-14 years	USD 250,000,000
March 2015	TIB Diversified Payment Rights Finance Company	USD 555,000,000	5-15 years	USD 555,000,000
October 2015	TIB Diversified Payment Rights Finance Company	USD 221,200,000	10 years	USD 221,200,000
October 2016	TIB Diversified Payment Rights Finance Company	USD 240,000,000	5-12 years	USD 240,000,000

## Other:

The Bank has obtained funds with an amount of USD 500 million and 10 years maturity, through securitization of future flow transactions on August 2014.

## d. Information on Debt Securities Issued (Net):

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	4,350,211	206,424	5,551,796	1,927,381
Bonds	832,167	17,076,399	773,889	11,508,063
<b>Total</b>	<b>5,182,378</b>	<b>17,282,823</b>	<b>6,325,685</b>	<b>13,435,444</b>

## e. Concentration of the liabilities of the Bank:

Bank's liabilities come from 57% of deposits, 10% of funds borrowed, 9% of the secondary subordinated securities loans and 7% of the money market funds. Deposits, having different properties are spread across a large customer base. The borrowings, on the other hand, are comprised of various funds obtained from financial institutions through syndication, securitization, post-financing and money market operations. No risk concentration exists related to the Bank's liabilities

## f. Information on Other Liabilities:

Other liabilities do not exceed 10% of the balance sheet total.

## g. Information on Lease Payables (net):

The Bank does not have any lease payables.

## h. Information on Derivative Financial Liabilities Held for Risk Management:

The Bank does not have any derivative financial liabilities held for risk management purposes.

## i. Information on Provisions:

## i.1. Information on general loan loss provisions:

	Current Period	Prior Period
<b>General Loan Loss Provisions</b>	<b>3,073,861</b>	<b>2,851,829</b>
Provision for Group I Loans and Receivables	2,485,821	2,406,126
Provision for Group II Loans and Receivables	252,588	175,504
Provision for Non-cash Loans	210,142	166,016
Other	125,310	104,183

## i.2. Reserves for employee benefits:

According to the related regulation and the collective bargaining agreements, the Bank is obliged to pay employee termination benefits to employees who retire, die, quit for their military service obligations, who have been dismissed as defined in the related regulation or to the female employees who have voluntarily quit within one year after the date of their marriage. In accordance with the related regulations, the amount of employee termination benefits is TL 4,297.21 (full TL amount as of 31 December 2016), which is one month salary for each service year and cannot exceed the base wage ceiling for employee termination benefits. A provision for severance pay to allocate that employees need to be paid upon retirement is calculated by estimating the present value of probable amount. In this context, as of 31 December 2016 TL 587,047 provision was set aside and reflected to the financial statements (31 December 2015: TL 517,074).

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

The main actuarial assumptions used in the calculation of the employee termination benefits are as follows:

- Discount and inflation rates, which vary by years, were used for the calculation and the real rate of increase in wage was taken as 2%.
- TL 4,297.21 (full TL amount) wage ceiling, which was effective as at 31 December 2016 was taken into account for the calculations.
- The age of retirement is considered as the earliest age possible that an individual can retire.
- CSO 1980 table is used for the mortality rate for female and male employees

The movements related to provision for employee termination benefits are given below:

	Current Period	Prior Period
Present value of defined benefit obligation at the beginning of the period	517,074	440,195
Service Cost	41,687	35,578
Interest Cost	53,786	36,592
Benefits paid	(25,080)	(25,369)
Loss/(Gain) due to Settlements/Reductions/Terminations	3,126	5,028
Actuarial loss/(gain)	(3,546)	25,050
<b>Defined benefit obligation at the end of the period</b>	<b>587,047</b>	<b>517,074</b>

In addition to the employee termination benefits, the Bank also allocates provision for the unused vacation pay liability. As of 31 December 2016, provision for unused vacation pay is amounting to TL 42,100 (31 December 2015: TL 35,993).

**i.3.** Provisions for exchange losses in the principal amount of foreign currency indexed loans: Since foreign currency indexed loans are followed based on the rates on the lending date, the Bank incurs a loss if the exchange rates decrease and makes profit if the exchange rate increases. As at 31 December 2016, provision amount for the currency evaluation losses in the principal amount of foreign currency indexed loans is TL 151 and this amount is offset against foreign currency indexed loan balance in the financial statements.

**i.4.** As at 31 December 2016, the Bank's specific provisions for indemnified non-cash loans balance is TL 120,311 (31 December 2015: TL 80,560) which is allocated for the non-cash loans of companies whose loans are followed under "Non-performing Loans" accounts.

**i.5.** Information on other provisions:

**i.5.1.** Provisions for potential risks: the Bank has net TL 800,000 general provisions recognized as expense in the prior periods for the possible result of the negative circumstances which may arise from any changes in economy or market conditions.

**i.5.2.** Liabilities arising from retirement benefits:

Liabilities of pension funds founded as per the Social Security Act:

Within the scope of the explanations given in Section Three Note XVII, in the actuarial report which was prepared as of 31 December 2015 for Türkiye İş Bankası A.Ş. Emekli Sandığı Vakfı (İşbank Pension Fund), of which each Bank employee is a member, and which has been established according to the provisional Article 20 of the Social Security Act No. 506, the amount of actuarial and technical deficit stands at TL 2,389,013 (31 December 2015: TL 2,175,902). There is a provision on financial statements to compensate the deficit in mentioned period, the mentioned provision is preserved on current year financial statements as well.

The above mentioned actuarial audit, which was made in accordance with the principles of the related law, measures the cash value of the liability as of 31 December 2016, in other words; it measures the amount to be paid to the Social Security Institution by the Bank. Actuarial assumptions used in the calculation are given below.

- 9.8% technical deficit interest rate is used.
- 34.5% total premium rate is used.
- CSO 1980 woman/man mortality tables are used.

Below table shows the cash values of premium and salary payments of the Bank as of 31 December 2016, taking the health expenses within the Social Security Institution limits into account.

	31 December 2016	31 December 2015
Net Present Value of Total Liabilities Other Than Health	(6,939,359)	(6,252,749)
Net Present Value of Long Term Insurance Line Premiums	3,151,378	2,799,494
<b>Net Present Value of Total Liabilities Other Than Health</b>	<b>(3,787,981)</b>	<b>(3,453,255)</b>
Net Present Value of Health Liabilities	(921,012)	(773,842)
Net Present Value of Health Premiums	1,790,556	1,590,621
<b>Net Present Value of Health Liabilities</b>	<b>869,544</b>	<b>816,779</b>
<b>Pension Fund Assets</b>	<b>529,424</b>	<b>460,574</b>
<b>Amount of Actuarial and Technical Deficit</b>	<b>(2,389,013)</b>	<b>(2,175,902)</b>

The assets of the pension fund are as follows:

	31 December 2016	31 December 2015
Cash and Cash Equivalents	418,632	357,448
Securities Portfolio	79,915	59,390
Other	30,877	43,736
<b>Total</b>	<b>529,424</b>	<b>460,574</b>

On the other hand, after the transfer, the currently paid health benefits will be revised within the framework of the Social Security Institution legislation and related regulations.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

**i.5.3.** Provision of credit cards and promotion of banking services applications: The Bank has recognized provisions amounting to TL 77,361 for the amount which is recognized within the framework of credit card expenses of credit card customers or promotions for banking services. (31 December 2015: TL 79,159).

**i.5.4.** As mentioned public disclosures of the Bank on 31 December 2012 and 19 December 2013; an inspection has been made by the inspectors of Tax Inspection Board to "Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı" ("İşbank Supplementary Pension Fund"), which was founded as per the provisions of the Turkish Commercial and Civil Codes, regarding the payments that fulfill İşbank's liabilities within the framework of the Articles of Foundation of the Pension Fund and the relevant legislation.

As a result of this investigation, tax audit reports were prepared for the years 2007, 2008, 2009, 2010, 2011 claiming that the aforementioned liabilities should be taxed in terms of wage base, thus, they should be subject to withholding tax and stamp duty. According to this report, the total amount of tax and penalties notified to Bank was TL 74,353 for 2007 and 2008; and TL 151,899 for 2009, 2010 and 2011 and it was stated that the Bank applied to tax courts to cancel these tax notifications and some of the court decisions were determined in favor of the Bank and some others were determined against the Bank.

In this context, for the finalized decisions of Regional Administrative Courts related to the years 2007 and 2008 against the Bank, the Bank applied to the Constitutional Court. According to the decision of the Constitutional Court which is made until the reporting date, there is no predictability in legal conformity for taxing the Bank's contributions to the Pension Fund in terms of wage base and for this reason it was accepted that property right of the Bank has been violated according to the 35<sup>th</sup> article of Constitution. Finally the Court decided that the amount of tax, penalties and default interest which was paid by the Bank should be paid back to the Bank as for compensation with its legal interest.

According to the decision of the Constitutional Court, it is expected that the cases related to the periods 2007, 2008, 2009, 2010 and 2011 will conclude in favor of the Bank. In this context, the provisions amounting to TL 207,402 which had been allocated for the mentioned periods, reversed. Within the scope of the legal process, lawsuits amounted TL 17,098 regarding the six periods in 2012-2013 have been resulted against the Bank. Except for the lawsuits related to the same period and legal process of subsequent periods are still in progress.

Regarding this issue, the Bank has transferred TL 43,856 (31 December 2015: TL 39,186) provision expense in the current period.

**i.5.5.** In 1993, Dışbank A.Ş. shares which were owned by the Bank were sold to Lapis Holding A.Ş. In 2008, it was claimed that USD 52.6 million of the amount, which was paid upfront within the context of the sale agreement, had been provided from the funds of the insolvent TYT Bank A.Ş. by the buyer and payment of USD 52.6 million as well as the interest to be calculated to the Savings Deposit Insurance Fund (SDIF) was demanded.

The administrative actions initiated by the SDIF in 2008 were revoked by Council of State Administrative Law Chambers 13<sup>th</sup> upon the application of the Bank. The decisions which were in favour of the Bank were reversed by Plenary Session of the Law Chamber upon the appeal of the SDIF. Council of State Administrative Law Chambers 13<sup>th</sup> decided to reject the applications of the Bank in January 2016 due to their obligation to obey the decisions of reversal.

After the aforementioned court decisions, although the legal process was still in progress, the collection procedures were carried out within the context of Law No. 6183 and TL 298,466, including the default interest, was collected from the Bank by the SDIF on 25 March 2016. In current period provisions amounting to TL 137,727 set aside in addition to the provisioning of previous years amounting to TL 160,739.

As a part of the legal process, individual application to the Constitutional Court of Republic of Turkey has been made by the Bank and conclusion of the application is anticipated. The legal process is continued within the framework of the ongoing lawsuits and other available legal options.

**i.5.6.** Except the provisions which are stated above, other provisions contain provision for expenses, provisions for ongoing lawsuit and other provisions set aside for miscellaneous reasons.

#### j. Information on Tax Liability:

##### j.1. Information on current tax liability:

##### j.1.1. Information on tax provision:

Explanations in relation to taxation and tax calculations were stated in Section Three notes XVIII. The remaining corporate tax liability after the deduction of the temporary tax amount stands at TL 48,922 as at 31 December 2016.

##### j.1.2. Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	48,922	295,280
Tax on Securities Income	141,855	132,719
Tax on Real Estate Income	3,676	3,323
Banking Insurance Transaction Tax	129,450	111,117
Foreign Exchange Transaction Tax	135	68
Value Added Tax Payable	6,625	4,953
Other	39,307	34,005
<b>Total</b>	<b>369,970</b>	<b>581,465</b>

##### j.1.3. Information on premiums:

	Current Period	Prior Period
Social Security Premiums - Employees	103	89
Social Security Premiums - Employer	125	107
Bank Pension Fund Premiums - Employees		
Bank Pension Fund Premiums - Employer		
Pension Fund Membership Fees and Provisions - Employees		
Pension Fund Membership Fees and Provisions - Employer		
Unemployment Insurance - Employees	1,258	1,130
Unemployment Insurance - Employer	2,516	2,261
Others	2	2
<b>Total</b>	<b>4,004</b>	<b>3,589</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

j.2. Information on deferred tax liabilities: None.

#### k. Information on Payables for Assets Held for Sale and Discontinued Operations:

The Bank does not have any payables for assets held for sale and discontinued operations.

#### l. Information on Subordinated Debts:

As of 24 October 2012, the Bank issued 10 year-term bond with a nominal value of USD 1,000,000,000 and as of 10 December 2013 issued 10 year-term bond with a nominal value USD 400,000,000 which are both have the characteristic of subordinated loans for the purpose of making available to the individuals and legal persons who are resident abroad. Interest rates of aforementioned bonds are 6.00% and 7.85% respectively.

The bonds mentioned are amounting to TL 4,930,016 as of 31 December 2016 (31 December 2015: TL 4,047,133).

#### m. Information on shareholders' equity:

##### m.1. Presentation of paid-in capital:

	Current Period	Prior Period
Common shares	4,499,970	4,499,970
Preferred shares	30	30
<b>Total</b>	<b>4,500,000</b>	<b>4,500,000</b>

##### m.2. Explanation as to whether the registered share capital system ceiling is applicable at the Bank, if so, the amount of registered share capital:

Capital System	Paid-in Capital	Ceiling
Registered Capital System	4,500,000	10,000,000

m.3. The capital increase made in current period: None.

m.4. Information on capital increase through transfer from capital reserves during the current period: None.

m.5. Significant commitments of the Bank related to capital expenditures within the last year and the following quarter, the general purpose thereof, and the estimation of funds required for them: None.

m.6. Information regarding the shares of the company acquired; Bank and included in the Bank did not acquired their own share.

m.7. Previous periods' indicators related to income, profitability and liquidity, and the estimated effects of forecasts, which are to be made by taking into consideration the uncertainties of these indicators, on the Bank's equity: The Bank's balance sheet is managed in a prudent way to ensure that the effect of risks arising from interest rates, exchange rates and loans is at the lowest level.

##### m.8. Privileges Granted to Shares:

Turkish Commercial Law and related registration are kept conditionally;

Group (A) shares each with a nominal value of 1 Kurus have the privileges of;

- Receiving 20 times the number of shares in the distribution of bonus shares issued from conversion of extraordinary and revaluation reserves generated in accordance with the relevant laws (Article 18 of the Articles of Incorporation)
- Exercising the preference rights as 20 times (Article 19 of the Articles of Incorporation), and

Despite having a lower nominal value, Group (B) shares, each with a nominal value of 1 Kurus, have the same rights with the Group (C) shares having a nominal value of 4 Kurus each. Furthermore, Group (A) and (B) shares, each with a nominal value of 1 Kurus, are granted privileges in distribution of profits pursuant to Article 58 of the Articles of Incorporation.

##### m.9. Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	FC	TL	FC
<b>Associates, Subsidiaries and Jointly Controlled Entities</b>	<b>4,862,143</b>		<b>3,991,260</b>	
Valuation Difference	4,862,143		3,991,260	
Foreign Exchange Differences				
<b>Financial Assets Available for Sale</b>	<b>(1,275,468)</b>	<b>(560,452)</b>	<b>(1,008,686)</b>	<b>55,523</b>
Valuation Difference	(1,594,509)	(674,042)	(1,260,735)	78,077
Deferred Tax Effect on Valuation	319,041	113,590	252,049	(22,554)
Foreign Exchange Differences				
<b>Total</b>	<b>3,586,675</b>	<b>(560,452)</b>	<b>2,982,574</b>	<b>55,523</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## III. DISCLOSURES AND FOOTNOTES ON OFF-BALANCE SHEET ITEMS

## a. Explanations to Liabilities Related to Off-Balance Sheet Items:

## a.1. Types and amounts of irrevocable loan commitments:

Commitment for customer credit card limits amounts to TL 22,217,478 and commitment to pay for cheque leaves amounts to TL 5,776,407. The amount of commitment for the forward purchase of assets is TL 2,171,350 and for the forward sale of assets is TL 2,158,591

## a.2. The structure and amount of probable losses and commitments resulting from off-balance sheet items, including those below:

As at 31 December 2016, the Bank's provisions for indemnified non-cash loans balance is TL 120,311 (31 December 2015: TL 80,560) which is allocated for the non-cash loans of companies whose loans are followed under "Non-performing Loans" accounts. Commitments are shown in the table of "off-balance sheet items".

## a.3. Guarantees, bank acceptances, collaterals that qualify as financial guarantees, and non-cash loans including other letters of credit:

	Current Period	Prior Period
Bank Acceptances	2,562,294	936,553
Letters of Credit	12,182,495	10,254,835
Other Guarantees	1,025,718	909,458
<b>Total</b>	<b>15,770,507</b>	<b>12,100,846</b>

## a.4. Certain guarantees, tentative guarantees, suretyships and similar transactions:

	Current Period	Prior Period
Letters of Tentative Guarantees	1,002,210	746,541
Letters of Certain Guarantees	28,982,531	25,973,399
Letters of Advance Guarantees	8,007,528	5,120,046
Letters of guarantee given to customs offices	3,179,139	3,458,505
Other Letters of Guarantee	6,668,365	3,241,529
<b>Total</b>	<b>47,839,773</b>	<b>38,540,020</b>

## a.5. Total Non-cash Loans:

	Current Period	Prior Period
Non-cash Loans against Cash Risks	6,633,461	3,212,584
With Original Maturity of 1 Year or Less	2,206,102	592,297
With Original Maturity More Than 1 Year	4,427,359	2,620,287
Other Non-cash Loans	56,976,819	47,428,282
<b>Total</b>	<b>63,610,280</b>	<b>50,640,866</b>

## a.6. Sectoral Risk Concentration of Non-cash Loans:

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agriculture	92,362	0.42	22,952	0.06	124,685	0.62	13,461	0.04
Farming and Stockbreeding	76,806	0.35	19,086	0.05	92,128	0.46	13,461	0.04
Forestry	13,047	0.06			30,084	0.15		
Fishery	2,509	0.01	3,866	0.01	2,473	0.01		
Industry	5,997,186	27.22	19,587,965	47.11	5,810,578	28.79	15,643,616	51.36
Mining and Quarrying	156,964	0.71	284,197	0.68	144,703	0.72	178,385	0.59
Manufacturing	3,559,441	16.16	16,309,641	39.23	3,305,348	16.38	11,729,859	38.51
Electricity, Gas, Water	2,280,781	10.35	2,994,127	7.2	2,360,527	11.69	3,735,372	12.26
Construction	3,292,688	14.94	5,731,586	13.79	3,072,322	15.22	4,476,973	14.70
Services	12,490,196	56.68	15,864,841	38.16	10,911,015	54.07	7,896,054	25.92
Wholesale and Retail Trade	8,068,973	36.62	8,766,615	21.09	7,519,160	37.26	3,395,193	11.15
Hotel and Restaurant Services	214,737	0.97	144,860	0.35	183,568	0.91	60,889	0.20
Transportation and Communication	1,072,627	4.87	2,700,565	6.5	759,817	3.77	1,424,829	4.68
Financial Institutions	1,796,118	8.15	2,400,978	5.77	1,354,221	6.71	2,145,145	7.04
Real Estate and Rental Services	1,008,961	4.58	1,327,348	3.19	582,059	2.88	521,558	1.71
Self-Employed Services	216,675	0.98	213,046	0.51	401,663	1.99	199,825	0.66
Educational Services	32,835	0.15	1,342	0.01	28,711	0.14	3,735	0.01
Health and Social Services	79,270	0.36	310,087	0.75	81,816	0.41	144,880	0.48
Others	163,380	0.74	367,124	0.88	262,725	1.30	2,429,437	7.98
<b>Total</b>	<b>22,035,812</b>	<b>100</b>	<b>41,574,468</b>	<b>100</b>	<b>20,181,325</b>	<b>100</b>	<b>30,459,541</b>	<b>100</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### a.7. Non-cash Loans classified under Group I and Group II:

	Group I		Group II	
	TL	FC	TL	FC
<b>Non-cash Loans</b>	<b>21,805,353</b>	<b>41,145,664</b>	<b>230,459</b>	<b>428,804</b>
Letters of Guarantee	21,795,002	25,396,842	230,459	417,470
Bank Acceptances		2,559,955		2,339
Letters of Credit	10,351	12,163,149		8,995
Endorsements				
Underwriting Commitments of the Securities Issued				
Factoring Related Guarantees				
Other Guaranties and Warranties		1,025,718		

#### b. Explanation on Derivative Financial Instruments:

Majority of the Bank's derivative transactions comprise foreign currency and interest rate swaps, forward foreign exchange trading, currency and interest rate options. Even though some derivative transactions economically provide risk hedging, since all necessary conditions to be defined as items suitable for financial risk hedging accounting are not met, they are recognized as "held for trading purposes" within the framework of TAS 39 "Financial Instruments: Recognition and Measurement".

#### c. Explanation Related to Contingencies and Commitments:

As of 31 December 2016, balance of the "Other Irrevocable Commitments" account, which comprised the letters of guarantees, guarantees and commitments submitted by the Bank pursuant to its own internal affairs, and guarantees given to third parties by other institutions in favor of the Bank and the commitments due to housing loans extended within the scope of unfinished house projects followed, amounts to TL 4,860,576.

As of 31 December 2015 liability of the Bank regarding the cheques given to customers is presented under off balance sheet commitments, as per the related regulations is amounting to TL 5,776,407. In case the cheques presented for payment to beneficiaries are not covered, the Bank will be obliged to pay the uncovered amount up to TL 1,410 (full amount expressed) for the cheques that are subject to the Law numbered 3167 on "the Regulation of Payments by Cheque and Protection of Cheque Holders", and up to TL 1,290 (full amount) for the cheques that are subject to the "Cheque Law" numbered 5941. The uncollected amount will be followed under "Indemnified Non-Cash Loans".

#### d. Explanations related to transactions made on behalf of or on the account of others:

It is explained in Note X under Section Four.

## IV. DISCLOSURES AND FOOTNOTES ON STATEMENT OF INCOME

### a. Interest Income

#### a.1. Information on interest income on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
<b>Interest Income on Loans <sup>(1)</sup></b>				
Short-term Loans	4,669,969	249,322	3,879,664	248,559
Medium and Long-term Loans	9,609,570	3,441,692	8,540,810	2,889,282
Interest on Non-performing Loans	149,742		129,791	
Premiums Received from State Resource Utilization Support Fund				
<b>Total</b>	<b>14,429,281</b>	<b>3,691,014</b>	<b>12,550,265</b>	<b>3,137,841</b>

<sup>(1)</sup> Includes fee and commission income on cash loans

#### a.2. Information on interest income on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of Turkey		4,022		
Domestic Banks	5,766	840	2,169	430
Foreign Banks	5,208	13,786	4,261	10,370
Foreign Head Offices and Branches				
<b>Total</b>	<b>10,974</b>	<b>18,648</b>	<b>6,430</b>	<b>10,800</b>

#### a.3. Information on interest income from securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial Assets Held for Trading	36,139	66	28,392	39
Financial Assets at Fair Value through Profit and Loss				
Financial Assets Available for Sale	3,104,858	436,433	2,910,239	385,004
Held to Maturity Investments	361,206	1,469	85,905	1,029
<b>Total</b>	<b>3,502,203</b>	<b>437,968</b>	<b>3,024,536</b>	<b>386,072</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## a.4. Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest Income from Associates and Subsidiaries	97,065	93,777

## b. Interest Expense

## b.1. Information on interest expense from funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	232,719	423,397	278,699	363,264
Central Bank of Turkey		157		156
Domestic Banks	19,868	8,266	18,579	7,027
Foreign Banks	212,851	414,974	260,120	356,081
Foreign Head Offices and Branches				
Other Institutions		131,088		112,889
<b>Total <sup>(1)</sup></b>	<b>232,719</b>	<b>554,485</b>	<b>278,699</b>	<b>476,153</b>

<sup>(1)</sup> Includes fee and commission expenses from cash loans.

## b.2. Information on interest paid to associates and subsidiaries:

	Current Period	Prior Period
Interest Paid to Associates and Subsidiaries	150,454	88,740

## b.3. Information on interest paid on marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Securities Issued	562,229	906,941	530,849	829,064

## b.4. Information on Interest Expense on Deposits According to Maturity Structure:

	Demand Deposits	Time Deposits					Accumulated Deposits	Total
		Up to One Month	Up to Three Months	Up to Six Months	Up to One Year	Over One Year		
<b>TL</b>								
Bank Deposits	7	56,341	26,478	234		186		83,246
Savings Deposits		175,718	3,952,971	280,591	47,781	32,877	303	4,490,241
Public Sector Deposits		1,249	10,524	224	6	1		12,004
Commercial Deposits	5	355,955	840,386	188,344	28,076	3,677		1,416,443
Other Institutions Deposits	6	11,702	243,576	222,152	54,688	264		532,388
Deposits with 7 Days' Notice								
<b>Total</b>	<b>18</b>	<b>600,965</b>	<b>5,073,935</b>	<b>691,545</b>	<b>130,551</b>	<b>37,005</b>	<b>303</b>	<b>6,534,322</b>
<b>FC</b>								
Foreign Currency Deposits	56	110,838	533,358	74,789	52,340	192,453	11	963,845
Bank Deposits	33	22,239	20,618	2,537	5,988	20,732		72,147
Deposits with 7 Days' Notice								
Precious Metals Deposits					2,161	133		2,294
<b>Total</b>	<b>89</b>	<b>133,077</b>	<b>553,976</b>	<b>77,326</b>	<b>60,489</b>	<b>213,318</b>	<b>11</b>	<b>1,038,286</b>
<b>Grand Total</b>	<b>107</b>	<b>734,042</b>	<b>5,627,911</b>	<b>768,871</b>	<b>191,040</b>	<b>250,323</b>	<b>314</b>	<b>7,572,608</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### c. Information on dividend income:

	Current Period	Prior Period
Financial Assets Held for Trading	2,768	
Financial Assets at Fair Value Through Profit and Loss		
Financial Assets Available for Sale	3,621	3,132
Other	676,284	551,808
<b>Total</b>	<b>682,673</b>	<b>554,940</b>

#### d. Information on trading income/losses (Net):

	Current Period	Prior Period
<b>Income</b>		
Securities Trading Gains	206,860	343,784
Gains on Derivative Financial Instruments	4,248,332	3,269,957
Foreign Exchange Gains	140,078,042	145,939,411
<b>Losses (-)</b>		
Securities Trading Losses	11,622	4,330
Losses on Derivative Financial Instruments	4,503,557	4,386,284
Foreign Exchange Losses	140,834,791	146,031,158
<b>Trading Income/Losses (Net)<sup>(1)</sup></b>	<b>(816,736)</b>	<b>(868,620)</b>

<sup>(1)</sup> Income arising from foreign currency changes related to derivative transactions amounts to TL 3,142,928 and the losses amount to TL 3,528,591 and the amount of net loss is TL 385,663 (31 December 2015 profit: TL 2,371,555; loss: TL 3,465,821)

#### e. Information on other operating income:

TL 300,277 of other operating income results from the transfer of Visa Europe Ltd, which is the payment systems company that the Bank has a share in capital, to Visa Inc. that operates in the same area. The remaining part consists of cancellations or collections from other provisions set aside due to miscellaneous reasons, mainly for non-performing loans; fee income received from customers in return for various banking services; and income from fixed asset sale.

#### f. Information on provision for loans and other receivables:

	Current Period	Prior Period
Specific Provisions for Loans and Other Receivables	1,994,179	1,415,417
Group III Loans and Receivables	159,278	125,320
Group IV Loans and Receivables	574,633	456,664
Group V Loans and Receivables	1,260,268	833,433
General Loan Provision Expenses <sup>(1)</sup>	251,680	530,657
Provision Expenses for Potential Risks		
Impairment Losses on Marketable Securities	1,699	2,308
Financial Assets at Fair Value through Profit and Loss	1,699	2,308
Financial Assets Available for Sale		
Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Held to Maturity Investments	149,494	
Associates		
Subsidiaries	149,494	
Jointly Controlled Entities		
Held to Maturity Investments		
Others	200,589	109,798
<b>Total</b>	<b>2,597,641</b>	<b>2,058,180</b>

<sup>(1)</sup> In the current period, the portion of TL 137,727 is additional provisions related to SDIF payment detailed in Section Five Note II-I.5.5

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## g. Other operating expenses:

	Current Period	Prior Period
Personnel Expenses <sup>(1)</sup>	2,957,560	2,587,865
Reserve for Employee Termination Benefits	73,519	51,829
Bank Pension Fund Deficit Provisions	213,111	277,495
Impairment Losses on Tangible Assets		6,483
Depreciation Expenses of Tangible Assets	203,820	210,360
Impairment Losses on Intangible Assets		
Impairment Losses on Goodwill		
Amortization Expenses of Intangible Assets	242,181	177,583
Impairment Losses on Equity Accounted Investments		
Impairment Losses on Assets to be Disposed	2,770	3,254
Depreciation Expenses of Assets to be Disposed	7,500	5,669
Impairment Losses on Assets Held for Sale		
Other Operating Expenses	2,034,870	1,835,390
Operational Lease Related Expenses	391,531	331,521
Repair and Maintenance Expenses	110,992	88,064
Advertisement Expenses <sup>(2)</sup>	171,473	177,520
Other Expenses <sup>(2)</sup>	1,360,874	1,238,285
Loss on Sale of Assets	2,131	158,555
Other <sup>(3)</sup>	768,662	1,012,906
<b>Total</b>	<b>6,506,124</b>	<b>6,327,389</b>

<sup>(1)</sup> Includes provision for the payments that will be made to employees such as dividend distribution in accordance with "TAS 19-Employee Benefits",

<sup>(2)</sup> In the current period, TL 46,771 of the related item is due to the expenses of Bank's donation, aid and social responsibility (31 December 2015: TL 32,062)

<sup>(3)</sup> In the current period TL 86,539 of the related item is due to the expenses incurred as a result of fee rebates which were recognized as income in prior years, TL 208,111 is due to taxes, duties, charges and funds.

## h. Information on Profit/Loss before taxes including Profit/Loss from Continuing and Discontinued Operations

The Bank's profit before tax is generated from its continuing operations. The profit before tax consists of net interest income of TL 10,837,281, net fee and commission income of TL 2,840,357 and the other operation expense amount to TL 6,506,124.

## i. Information on provision for taxes from continuing and discontinued operations

As of 31 December 2016 the amount of the Bank's tax provision is TL 1,052,576 and the amount consists of current tax expense that is amounting to TL 889,996 and consists of deferred tax income amounting TL 162,580.

## j. Information on Net Operating Profit/Loss after Taxes Including Net Profit/Loss from Continuing and Discontinued Operations:

The Bank's net profit generated from its continuing operations amounts to TL 4,701,206.

## k. Information on net period profit/loss:

**k.1.** Income and expenses resulting from ordinary banking activities: There is no specific issue required to be disclosed for the Bank's performance for the year between 1 January 2016 - 31 December 2016.

**k.2.** Effects of changes in accounting estimates on the current and future periods' profit/loss: There is no issue to be disclosed.

**k.3.** "The other" item which is located at the bottom of received fees and commissions in the income statement consist of various fees and commissions received from transactions such as credit card transactions, capital market transactions.

## l. Explanation on other items on the income statement:

Other items do not exceed 10% of the total amount of the income statement.

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### V. DISCLOSURES AND FOOTNOTES ON STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

The paid-in capital is TL 4,500,000 in legal records. As of balance sheet date, the balance of legal reserves is TL 2,714,077 and the balance of extraordinary reserves is TL 17,057,785.

In the current period, the change in other reserves item mainly is a result of the conversion profit of foreign branches and the actuarial loss related to employee termination benefit.

The details of revaluation surplus of securities are shared in the Note Section Five II-m.9. TL 432,631 of this amount is the deferred tax effect on available for sale securities (31 December 2015: TL 229,495).

Change in retained earnings amounting to TL 32,992 is comprised of reclassification of revaluation surplus of sold real estates to retained earnings in accordance with the TAS 16- Property, Plant and Equipment.

#### VI. DISCLOSURES AND FOOTNOTES ON STATEMENT OF CASH FLOWS

The operating profit of TL 12,661,000 before the changes in operating assets and liabilities mostly comprised of TL 21,709,988 of interest received from loans and securities, and TL 11,309,254 of interest paid on deposits, money market operations and funds borrowed by the Bank. The account "Other" classified under operating profit other than fees and commissions paid, cash payments to personnel and service suppliers and taxes paid consists of other operating expenses and foreign exchange gains/losses accounts is TL 3,293,407 (31 December 2015: TL 2,670,294).

Net Increase (Decrease) in Other Liabilities account classified in changes of assets and liabilities resulting from the changes in Funds Provided Under Repurchase Agreements, miscellaneous payables, other liabilities and taxes, duties, charges, and premiums is TL 1,620,480 (31 December 2015: TL 2,183,101).

Net Cash Provided from Other Investing Activities account includes net cash flows from sale of intangible assets and declined by TL 262,305 (31 December 2015: TL 257,368).

The effect of changes in foreign exchange rates on cash and cash equivalents is approximately TL 90,373 as of 31 December 2016. Due to the high rate of turnover of related foreign currency assets, the difference between the last 30 days' arithmetic average of currency exchange rates and the year end currency exchange rate is used to calculate the effect of change in foreign exchange rate. Under the same assumption, the effect of change in foreign exchange rate on cash and cash equivalents as of 31 December 2015 was TL 24,402 decrease.

Cash, cash in foreign currency, unrestricted deposits in Central Bank of Turkey, money in transit, cheques purchased, precious metals, money market operations as well as demand and timed up to 3 months are defined as cash and cash equivalents.

#### Cash and cash equivalents at beginning of the period:

	Current Period 31 December 2015	Prior Period 31 December 2014
<b>Cash</b>	<b>7,780,546</b>	<b>8,284,384</b>
Cash in TL and Foreign Currency	2,641,819	2,501,742
Central Bank of Turkey and Other	5,138,727	5,782,642
<b>Cash Equivalents</b>	<b>1,155,775</b>	<b>1,037,403</b>
Banks' Demand Deposits and Time Deposits Up to 3 Months	1,155,775	1,037,403
Money Market Receivables		
<b>Total Cash and Cash Equivalents</b>	<b>8,936,321</b>	<b>9,321,787</b>

The total amount resulting from the transactions made in the previous period shows the total cash and cash equivalents as of the beginning of the current period.

#### Cash and cash equivalents at end of the period:

	Current Period 31 December 2016	Prior Period 31 December 2015
<b>Cash</b>	<b>12,109,575</b>	<b>7,780,546</b>
Cash in TL and Foreign Currency	3,381,972	2,641,819
Central Bank of Turkey and Other	8,727,603	5,138,727
<b>Cash Equivalents</b>	<b>1,839,281</b>	<b>1,155,775</b>
Banks' Demand Deposits and Time Deposits Up to 3 Months	1,839,281	1,155,775
Money Market Receivables		
<b>Total Cash and Cash Equivalents</b>	<b>13,948,856</b>	<b>8,936,321</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## VII. DISCLOSURES AND FOOTNOTES ON THE BANK'S RISK GROUP

## a. Information on the volume of transactions relating to the Bank's risk group, incomplete loan and deposit transactions and period's profit and loss:

## a.1. Information on loans held by the Bank's risk Group

Current Period:

Bank's Risk Group	Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		Direct and Indirect Shareholders of the Bank		Other Real Persons and Corporate Bodies that have been Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	920,545	1,703,307			310,216	284,874
Balance at the end of the period	716,343	2,471,720			194,735	569,256
Interest and commission income received	84,803	719			34,825	4,185

Prior Period:

Bank's Risk Group	Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		Direct and Indirect Shareholders of the Bank		Other Real Persons and Corporate Bodies that have been Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	883,934	1,372,412			564,693	231,998
Balance at the end of the period	920,545	1,703,307			310,216	284,874
Interest and commission income received	78,865	949			55,474	2,443

## a.2. Information on deposits held by the Bank's risk group:

Bank's Risk Group	Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		Direct and Indirect Shareholders of the Bank		Other Individuals and Corporates in Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Deposits						
Balance at the beginning of the period	2,130,575	1,379,363	166,618	206,316	3,621,463	3,047,937
Balance at the end of the period	2,406,119	2,130,575	242,924	166,618	3,633,758	3,621,463
Interest expense on deposits	142,147	81,566	34,238	30,689	192,287	148,488

## a.3. Information on forward and option agreements and other similar agreements made with the Bank's risk group:

Bank's Risk Group	Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		Direct and Indirect Shareholders of the Bank		Other Individuals and Corporates in Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Transactions at Fair Value Through Profit and Loss						
Beginning of the period	398,549	793,010				
End of the period	591,075	398,549			26,465	
Total Profit/Loss	(14,880)	(24,658)			(1,048)	1,330
Transactions for hedging purposes						
Beginning of the period						
End of the period						
Total Profit/Loss						

# Türkiye İş Bankası A.Ş.

## Notes to the Unconsolidated Financial Statements

### For the Year Ended 31 December 2016

#### b. Disclosures for Bank's risk group:

**b.1.** The relations of the Bank with the entities controlled by the Bank and its related parties regardless of whether there are any transactions between the parties:

All types of corporate and retail banking services are provided to these corporations in line with the articles of Banking Law.

**b.2.** The type and amount of transaction carried out, and its ratio to the overall transaction volume, values of principal items and their ratios to overall items, pricing policy and other items in addition to the structure of the relationship:

The transactions carried out are mainly loan and deposit transactions. The ratio of loans extended to the risk group to the overall loans is 0.45%, while the ratio to the overall assets is 0.29%; the ratio of deposits of the risk group corporations to the overall deposits is 3.54%, while the ratio to overall liabilities is 2.02%. Comparable price method is used in pricing the transactions.

**b.3.** Purchase and sale of real estates, other assets and services, agency agreements, finance lease contracts, transfer of information obtained through research and development, license agreements, funding (including loans and provision of support as cash capital or capital-in-kind), guarantees and collaterals, and management agreements:

The Bank acquires its properties through its associate, İş Finansal Kiralama A.Ş., when required. The Bank's branches act as agents for Anadolu Anonim Türk Sigorta Şirketi and Anadolu Hayat Emeklilik A.Ş. Furthermore, through its branches the Bank also carries out agency activity for order transmission on behalf of İş Yatırım Menkul Değerler A.Ş. and acts as an agent for İş Portföy Yönetimi A.Ş.

If requested, cash and non-cash loan requirements of corporations within the risk group are met in accordance with the limits imposed by the Banking Law and the prevailing market conditions.

#### c. Total salaries and similar benefits paid to the key management personnel

Benefits paid to key management personnel in the current period amount to TL 22,433 (31 December 2015: TL 17,350).

#### VIII. DISCLOSURES ON THE BANK'S DOMESTIC, FOREIGN, OFF-SHORE BRANCHES OR ASSOCIATES AND FOREIGN REPRESENTATIVE OFFICES

	Number	Employees			
Domestic Branches <sup>(1)</sup>	1,351	24,464			
			<b>Country of Incorporation</b>		
Foreign Representative Offices	1	1	People's Republic of China		
	1	2	Egypt		
				<b>Total Assets</b>	<b>Legal Capital</b>
Foreign Branches	2	40	England	13,600,245	429
	16	185	T.R.N.C.	2,306,031	80,000
	2	34	Iraq	607,648	48,646
	2	23	Kosovo	278,405	36,820
Off-Shore Branches	1	7	Bahrain	7,187,923	

<sup>(1)</sup> The Branches located in Free Trade Zones in Turkey are included among domestic branches.

#### IX. SUBSEQUENT EVENTS

Within the framework of the resolution of the Bank's Board of Directors dated 22 August 2016 regarding issuance of securities, the Bank has issued Bank bills with a nominal value of TL 400,046 with a term of 123 days; bills with a nominal value of TL 456,835 with a term of 221 days and bills with a nominal value of TL 162,000 with a term of 116 days on and after 31 December 2016.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Unconsolidated Financial Statements  
For the Year Ended 31 December 2016

## SECTION SIX: OTHER EXPLANATIONS

## I. EXPLANATIONS ON THE BANK'S CREDIT RATINGS:

	Rating	Outlook <sup>(1)</sup>	Explanation
<b>MOODY'S</b>			
Long-term Foreign Currency Deposit	Ba2	Stable	It is the highest rating in this category determined ceiling of Turkey.
Long-term Local Currency Deposit	Ba1	Stable	Same as the country rating given for Turkey.
Long-term Foreign Currency Senior Debt	Ba1	Stable	Same as the country rating given for Turkey.
Short-term Foreign Currency Deposit	Not-Prime	-	Indicates that the Bank's level is not investible.
Short-term Local Currency Deposit	Not-Prime	-	Indicates that the Bank's level is not investible.
<b>FITCH RATINGS</b>			
Long-term Foreign Currency Issuer Default Rating	BBB-	Negative	At investment level. Shows that the Bank's credibility is good.
Long-term Local Currency Issuer Default Rating	BBB-	Negative	At investment level. Shows that the Bank's credibility is good.
Short-term Foreign Currency Issuer Default Rating	F3	-	At investment level. Shows that the capacity for timely payment of financial commitments is adequate.
Short-term Local Currency Issuer Default Rating	F3	-	At investment level. Shows that the capacity for timely payment of financial commitments is adequate.
National Long-term Rating	AA+ (tur)	Stable	Shows high credit quality (national).
Viability Rating	bbb-	-	Shows that the Bank's credibility is "good". Basic financial indicators are adequate.
Support Rating	3	-	There is a moderate probability of support.
<b>STANDARD &amp; POOR'S</b>			
Long-term Counterparty Credit Rating	BB	Negative	Same as the FC country rating given for Turkey.
Short-term Counterparty Credit Rating	B	-	Indicates that it has the capacity to meet its financial commitment on the obligation.
Long-term National Scale Rating	trAA-	-	Indicates that its capacity to meet its financial commitments on the obligation is strong.
Short-term National Scale Rating	trA-1	-	It is the highest rating in this category and indicates that the Bank's capacity to pay its short-term debt is higher than the other institutions in the country.

The dates below given are on which the Bank's credit ratings/outlook was last updated:

Moody's: 26 September 2016, Fitch Ratings: 25 August 2016, Standard & Poor's: 31 January 2017

<sup>(1)</sup> Outlook:

"Stable" indicates that the current rating will not be changed in the short term; "positive" indicates that the current rating is very likely to be upgraded and "negative" indicates that the current rating is very likely to be downgraded.

## II. EXPLANATIONS ON SPECIAL PURPOSE AUDIT AND PUBLIC AUDIT

According to the Turkish Commercial Code 207, 438 and 439, there has not been the scope of the special audit to the Bank in the current period. At Bank BRSA, CBRT, the Capital Markets Board, the Competition Authority is subject to public scrutiny, including public institutions such as. In relation to these inspections of public institutions, if there is a point where disclosure to be necessary, the Bank shares the issues with the public through disclosures.

## SECTION SEVEN: EXPLANATIONS ON THE INDEPENDENT AUDITORS' REPORT

## I. EXPLANATIONS ON THE INDEPENDENT AUDITORS' REPORT

The unconsolidated financial statements of the Bank as of 31 December 2016 have been audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and the independent audit report dated 2 February 2017 is presented before the accompanying unconsolidated financial statements.

## II. EXPLANATIONS AND FOOTNOTES OF THE INDEPENDENT AUDITORS

There are no significant issues or necessary disclosures or notes in relation to the Bank's operations other than those mentioned above.

# Consolidated Financial Statements as at and for the Year Ended 31 December 2016 with Independent Audit's Report Thereon

(Convenience Translation of Unconsolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)



Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No: 29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

## Independent Auditor's Report

Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish to English (See Note I in Section Three)

To the Board of Directors of Türkiye İş Bankası Anonim Şirketi;

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Türkiye İş Bankası Anonim Şirketi ("the Bank") and its consolidated financial subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of income, consolidated statement of income and expense items accounted under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the "Regulation on Independent Audit of the Banks" published in the Official Gazette No.29314 dated 2 April 2015 by BRSA and Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Basis for Qualified Opinion

As described in Notes to the consolidated financial statements Section 5-II Note i-5, the accompanying consolidated financial statements as at 31 December 2016 includes a general provision at the amount of net TL 800,000 thousands which had been recognized as expense in the prior periods, which is provided by the Bank management for the possible effects of the negative circumstances which may arise in the economy or market conditions.

### Qualified Opinion

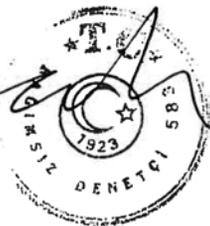
In our opinion, except for the effect of the matter described in the basis for qualified opinion paragraph above, the consolidated financial statements present fairly, in all material respects, the financial position of Türkiye İş Bankası AŞ and its financial subsidiaries as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

### Report on Other Legal and Regulatory Requirements

- 1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No.6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2016 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.
- 2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of KPMG International Cooperative

Erdal Tıkmak  
Partner, SMMM  
2 February 2017  
İstanbul, Turkey



### Additional paragraph for convenience translation to English:

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the consolidated financial statements and IFRS.

# Türkiye İş Bankası A.Ş.

## The Consolidated Financial Report

### As at and for the Year Ended 31 December 2016

Headquarters Address: İş Kuleleri, 34330, Levent/İstanbul  
Telephone: 0212 316 00 00  
Fax: 0212 316 09 00  
Web Site: www.isbank.com.tr  
E-mail: musterii.liskileri@isbank.com.tr

The consolidated financial report as at and for the year ended 31 December 2016 prepared in accordance with the communiqué of "Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks" as regulated by Banking Regulation and Supervision Agency, comprises the following sections:

GENERAL INFORMATION ABOUT THE PARENT BANK  
CONSOLIDATED FINANCIAL STATEMENTS OF THE PARENT BANK  
EXPLANATIONS ON THE ACCOUNTING POLICIES  
INFORMATION ON THE FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE GROUP  
DISCLOSURES AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS  
OTHER EXPLANATIONS  
INDEPENDENT AUDITORS' REPORT

Associates, subsidiaries and special Purpose Entities whose financial statements have been consolidated in the consolidated financial report are as follows:

Subsidiaries	Associates	Subsidiaries	Associates
ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ	ARAP-TÜRK BANKASI A.Ş.	İŞBANK AG	
ANADOLU HAYAT EMEKLİLİK A.Ş.		JOINT STOCK COMPANY İŞBANK (JSC İŞBANK)	
EFES VARLIK YÖNETİM A.Ş.		JOINT STOCK COMPANY İSBANK GEORGIA (JSC İSBANK GEORGIA)	
İS INVESTMENTS GULF LTD.		MAXIS INVESTMENTS LTD.	
İŞ FAKTORİNG A.Ş.		MİLLİ REASÜRANS T.A.Ş.	
İŞ FİNANSAL KİRALAMA A.Ş.		TSKB GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.	
İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.		TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.	
İŞ GİRİŞİM SERMAYESİ YATIRIM ORTAKLIĞI A.Ş.		YATIRIM FİNANSMAN MENKUL DEĞERLER A.Ş.	
İŞ PORTFÖY YÖNETİMİ A.Ş.		<b>Special Purpose Entities</b>	
İŞ YATIRIM MENKUL DEĞERLER A.Ş.		TİB CARD RECEIVABLES FUNDING COMPANY LIMITED	
İŞ YATIRIM ORTAKLIĞI A.Ş.		TİB DIVERSIFIED PAYMENT RIGHTS FINANCE COMPANY	

The consolidated financial statements and related disclosures and footnotes in this report are prepared, in accordance with the Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks, Banking Regulation and Supervision Agency (BRSA) regulations, Turkish Accounting Standards, Turkish Financial Reporting Standards and the related statements and guidance and in compliance with the financial records of our Bank. Unless otherwise stated the accompanying consolidated financial report is presented in thousands of Turkish Lira (TL), and has been subjected to limited review and presented as the attached.

  
**Prof. Dr. Turkay Berksoy**  
Member of the Board and  
the Audit Committee

  
**Füsün Tümsavaş**  
Deputy Chairman of the Board of Directors and  
Chairman of the Audit Committee

  
**H. Ersin Özince**  
Chairman of the Board of Directors

  
**Ali Tolga Ünal**  
Head of Financial Management Division

  
**Mahmut Magemizoğlu**  
Deputy Chief Executive  
In Charge of Financial Reporting

  
**Adnan Bali**  
Chief Executive Officer

The authorized contact person for questions on this consolidated financial report:

Name - Surname/Title : Süleyman H. Özcan/Head of Investor Relations Division  
Phone No : +90 212 316 16 02  
Fax No : +90 212 316 08 40  
E-mail : Suleyman.Ozcan@isbank.com.tr  
investorrelations@isbank.com.tr

## Financial Information and Risk Management

	Page
<b>SECTION I</b>	
<b>General Information about the Parent Bank</b>	
I. Explanations on the Establishment Date and Initial Status of the Parent Bank, and History Including the Changes in the Former Status	188
II. Explanations on the Capital Structure, Shareholders who Directly or Indirectly, Solely or Jointly Undertake the Management and Control of the Parent Bank, any Changes in the Period, and Information on the Parent Bank's Risk Group	188
III. Explanations on the Chairman's, Directors', Auditors', Chief Executive Officer's and Deputy Chief Executives' Shares, if any, and the Areas of their Responsibility at the Bank	188
IV. Information on the Parent Bank's Qualified Shareholders	189
V. Summary Information on the Parent Bank's Functions and Business Lines	189
VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and Explanation about the Institutions Subject to Line-By-Line Method or Proportional Consolidation and Institutions which are Deducted from Equity or not Included in These Three Methods	189
VII. Existing or Potential, Actual or Legal Obstacles on the Transfer of Shareholders' Equity Between the Parent Bank and its Subsidiaries or the Reimbursement of Liabilities	191
VIII. Written Policies on Assessment of Ensuring Compliance on Market Discipline, Disclosure Obligations, Frequency and Accuracy of the Related Disclosures	191
<b>SECTION II</b>	
<b>Consolidated Financial Statements</b>	
I. Consolidated Balance Sheet (Statement of Financial Position) - Assets	192
II. Consolidated Balance Sheet (Statement of Financial Position) - Liabilities and Equity	193
III. Consolidated Off-Balance Sheet Items	194
IV. Consolidated Income Statement	196
V. Consolidated Statement of Income and Expense Items Accounted under Shareholders' Equity	197
VI. Consolidated Statement of Changes in the Shareholders' Equity	198
VII. Consolidated Statement of Cash Flows	200
VIII. Consolidated Statement of Profit Distribution Table	201
<b>SECTION III</b>	
<b>Explanations on Accounting Policies</b>	
I. Basis of Presentation	202
II. Strategy for Use of Financial Instruments and on Foreign Currency Transactions	202
III. Information on the Consolidated Companies	203
IV. Forward, Option Contracts and Derivative Instruments	204
V. Interest Income and Expenses	204
VI. Fees and Commission Income and Expenses	204
VII. Financial Assets	204
VIII. Impairment of Financial Assets	205
IX. Offsetting Financial Instruments	206
X. Sale and Repurchase Agreements and Securities Lending Transactions	206
XI. Non-current Assets Held for Sale and Discontinued Operations and Related Liabilities	206
XII. Goodwill and Other Intangible Assets	206
XIII. Tangible Assets	206
XIV. Investment Property	207
XV. Leasing Transactions	207
XVI. Insurance Technical Income and Expense	207
XVII. Insurance Technical Reserves	207
XVIII. Provisions and Contingent Liabilities	208
XIX. Contingent Assets	208
XX. Liabilities Regarding Employee Benefits	208
XXI. Taxation	209
XXII. Borrowings	210
XXIII. Equity Shares and Issuance of Equity Shares	211
XXIV. Bank Acceptances and Bills of Guarantee	211
XXV. Government Incentives	211
XXVI. Segment Reporting	211
XXVII. Other Disclosures	211

	Page	
<b>SECTION IV</b>		
<b>Information on the Financial Position and Risk Management of the Group</b>		
I. Explanations on Shareholders' Equity:	212	
II. Explanations on Credit Risk	219	
III. Explanations on Currency Risk	228	
IV. Explanations on Interest Rate Risk	229	
V. Explanations on Equity Shares Risk Arising from Banking Book	232	
VI. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio	233	
VII. Explanations on Leverage Ratio	238	
VIII. Explanations on Other Price Risk	239	
IX. Explanations on Presentation of Assets and Liabilities at Fair Value	239	
X. Explanations on Transactions Carried Out on Behalf of Third Parties and Fiduciary Transactions	241	
XI. Explanations on Risk Management Objectives and Policies	241	
XII. Explanations on Consolidated Business Segmentation	251	
<b>SECTION V</b>		
<b>Disclosures and Footnotes on the Consolidated Financial Statements</b>		
I. Disclosures and Footnotes on Consolidated Assets	254	
II. Disclosures and Footnotes on Consolidated Liabilities	269	
III. Disclosures and Footnotes on Consolidated Off-Balance Sheet Items	275	
IV. Disclosures and Footnotes on Consolidated Income Statement	277	
V. Disclosures and Footnotes on Consolidated Statement of Changes in Shareholders' Equity	280	
VI. Disclosures and Footnotes on the Consolidated Statements of Cash-Flows	281	
VII. Disclosures and Footnotes on the Group's Risk Group	281	
VIII. Disclosures on the Group's Domestic, Foreign, Off-Shore Branches or Participations and Representative Offices	283	
IX. Subsequent Events	284	
<b>SECTION VI</b>		
<b>Other Explanations</b>		
I. Explanation on the Group's Credit Ratings:	284	
II. Explanations on Special Purpose Audit and Public Audit	285	
<b>SECTION VII</b>		
<b>Explanations on the Independent Auditors' Report</b>		
I. Explanations on the Independent Auditors' Report:	285	
II. Explanations and Footnotes of the Independent Auditors	285	

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## SECTION ONE: GENERAL INFORMATION ABOUT THE PARENT BANK

## I. Explanations on the Establishment Date and Initial Status of the Parent Bank, and History Including the Changes in the Former Status

TÜRKİYE İŞ BANKASI A.Ş. ("the Bank" or "the Parent Bank") was established on 26 August 1924 to operate in all kinds of banking activities and to initiate and/or participate in all kinds of financial and industrial sector undertakings when necessary. The Bank status has not been changed since its establishment.

## II. Explanations on the Capital Structure, Shareholders who Directly or Indirectly, Solely or Jointly Undertake the Management and Control of the Parent Bank, any Changes in the Period, and Information on the Parent Bank's Risk Group

As at 31 December 2016, 40.15% of the Bank's shares are owned by Türkiye İş Bankası A.Ş. Members' Supplementary Pension Fund (Fund), 28.09% are owned by the Republican People's Party-CHP (Atatürk's shares) and 31.76% are on free float. (31 December 2015: Fund 40.15%, CHP 28.09%, free float 31.76%).

## III. Explanations on the Chairman's, Directors', Auditors', Chief Executive Officer's and Deputy Chief Executives' Shares, if any, and the Areas of their Responsibility at the Bank

## Board of Directors:

Name and Surname	Areas of Responsibility
H. Ersin Özince	Chairman of the Board and the Remuneration Committee
Füsün Tümsavaş	Deputy Chairman, Audit Committee, TRNC Internal Systems Committee and the Risk Committee, Chairman of the Corporate Governance Committee, Member of the Credit Committee
Adnan Bali	Chief Executive Officer and Director, Chairman of the Credit Committee, Member of the Risk Committee, Chairman of the Executive Committee, Chairman of the Human Resources Committee
Hasan Koçhan	Director, Member of the Credit Committee
Mustafa Kıcaloğlu	Director
Hüseyin Yalçın	Director
Murat Vulkan	Director
Prof. Dr. Turkey Berksoy	Director, Audit Committee, TRNC Internal Systems Committee, Remuneration Committee, and Corporate Governance Committee, Alternate Member of the Credit Committee
Kemal Meral	Director
Ulaş Moğultay	Director, Member of the Corporate Social Responsibility Committee
Feray Demir	Director, Member of the Corporate Social Responsibility Committee, Alternate Member of the Credit Committee

## Chief Executive Officer and Deputy Chief Executives:

Name and Surname	Areas of Responsibility
Adnan Bali	Chief Executive Officer and Director, Chairman of the Credit Committee, Member of the Risk Committee, Chairman of the Executive Committee, Chairman of the Human Resources Committee
Mahmut Magemizoğlu	I. Deputy Chief Executive, Financial Management, Strategy and Corporate Performance Management, Investor Relations, Managerial Reporting and Internal Accounting, Subsidiaries, Member of the Risk Committee
Hakan Aran	Information Technology Management, Digital Banking Operations, Data Management
Levent Korba	Banking Operations, Support Services and Purchasing, Foreign Trade and Commercial Loan Operations, Internal Operations Management, Construction and Real Estate Management, Branch Network Development
Ertuğrul Bozgedik	Corporate Loans, SME Loans, Commercial Loans and Consumer Loans Underwriting, Loans Portfolio Management, Financial Analysis, Member of the Risk Committee
Yalçın Sezen	Consumer Loans, Card Payment Systems, Retail Banking Marketing, Sales and Product Management, Retail Loans and Card Operations, Digital Banking, Private Banking Marketing and Sale Management, Member of the Corporate Social Responsibility Committee
Senar Akkuş	Treasury Management, Corporate Communication Management, Capital Markets, Corporate Social Responsibility Committee Member of the Risk Committee
Yılmaz Ertürk	Economic Research, International Financial Institutions
Ergün Yorulmaz	Commercial Banking, Retail Banking and General Legal Counsellorship, Commercial and Corporate Loans and Retail Loans Monitoring and Recovery Management
Murat Bilgiç	Commercial Banking Marketing, Sales and Product Management, SME and Business Banking Sales, Corporate Banking Marketing and Sales, Free Zone Branches, Cross-Border Banking and Foreign Subsidiaries, Branches and Representative Offices
Nevzat Burak Seyrek	Enterprise Architecture, Human Resources and Talent Management, Coordination of Consumer Relations Officer

The Parent Bank's shares attributable to the Directors and members of the Audit Committee, to the CEO and the Deputy Chief Executives are of minor importance.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### IV. Information on the Parent Bank's Qualified Shareholders

Name Surname/Company	Shares	Ownership	Paid-in Capital	Unpaid Capital
T. İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı ("İşbank Members' Supplementary Pension Fund")	1,806,553	40.15%	1,806,553	
Cumhuriyet Halk Partisi - Republican People's Party (Atatürk's Shares)	1,264,142	28.09%	1,264,142	

#### V. Summary Information on the Parent Bank's Functions and Business Lines

In line with the relevant legislation and principles stated in the Articles of Incorporation of the Bank, the Parent Bank's activities include operating in retail, commercial, corporate and private banking, foreign currency and money market operations, marketable securities operations, international banking services and other banking operations, as well as initiating or participating in all kinds of financial and industrial sector corporations as may be required.

#### VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and Explanation about the Institutions Subject to Line-By-Line Method or Proportional Consolidation and Institutions which are Deducted from Equity or not Included in These Three Methods

Banks are obligated to prepare consolidated financial statements by taking into account credit institutions and financial subsidiaries for creating legal restrictions on a consolidated basis based on the "Communiqué on Preparation of Consolidated Financial Statements of Banks" by applying Turkish Accounting Standards. There is not any difference between the related Communiqué and the consolidation operations that is based on Turkish Accounting Standards and Turkish Financial Reporting Standards.

The consolidated financial statement includes the subsidiaries of the Bank which are credit institutions or financial institutions accordance with the BRSA regulations. As of current there is no credit institution or financial institution subsidiaries which are excluded in the scope of the consolidation.

The Parent Bank and its credit institutions and financial subsidiaries;

- ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ
- ANADOLU HAYAT EMEKLİLİK A.Ş.
- EFES VARLIK YÖNETİM A.Ş.
- İS INVESTMENTS GULF LTD.
- İŞ FAKTORİNG A.Ş.
- İŞ FİNANSAL KİRALAMA A.Ş.
- İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.
- İŞ GİRİŞİM SERMAYESİ YATIRIM ORTAKLIĞI A.Ş.
- İŞ PORTFÖY YÖNETİMİ A.Ş.
- İŞ YATIRIM MENKUL DEĞERLER A.Ş.
- İŞ YATIRIM ORTAKLIĞI A.Ş.
- İŞBANK AG
- JSC İŞBANK
- JSC İSBANK GEORGIA
- MAXIS INVESTMENTS LTD.
- MİLLİ REASÜRANS T.A.Ş.
- TSKB GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.
- TÜRKİYE SINAI KALKINMA BANKASI A.Ş.
- YATIRIM FİNANSMAN MENKUL DEĞERLER A.Ş.

and Special Purpose Entities,

- TIB Diversified Payment Rights Finance Company
- TIB Card Receivables Funding Company Limited

are taken into account in the consolidated financial statements through full consolidation.

Its credit institution associate;

- ARAP-TÜRK BANKASI A.Ş.

is accounted in the consolidated financial statements through equity accounting method.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

Consolidated companies are active in the areas of banking, insurance and reinsurance, private pensions, finance leasing, factoring, real estate investment, venture capital investment, brokerage, investment consulting, portfolio and asset management. Those companies are explained below.

#### Anadolu Anonim Türk Sigorta Şirketi

The Company was established in 1925 and operates in almost all non-life insurance service. The headquarter of the Company is in Istanbul. The Company's shares are traded in the Borsa İstanbul A.Ş.

#### Anadolu Hayat Emeklilik A.Ş.

The Company was founded in 1990 and its' headquarter is in Istanbul. The company's main activities are private individual or group pension and life/death insurance and due to this branch are engaged in all kinds of insurance. There are 26 private pension funds founded by the company. The company's shares are traded in the Borsa İstanbul A.Ş.

#### Efes Varlık Yönetim A.Ş.

The field of activity of the company, which was founded in February 2011 is to purchase and sell the receivables with other assets of deposit banks, participation banks and other financial institutions. The Company's headquarter is located İstanbul.

#### Is Investments Gulf Ltd.

The Company that was founded in Dubai at 2011 to operate brokerage activities mainly capital markets in the gulf region is at liquidation phase.

#### İş Faktoring A.Ş.

The field of operation of the Company, which operates in the factoring sector since 1993, is domestic and foreign factoring operations. The Company's headquarter is in Istanbul.

#### İş Finansal Kiralama A.Ş.

The Company, whose field of activity is financial leasing within the country and abroad started its business in 1988. The headquarters of the Company is in Istanbul. The Company's shares are traded in the Borsa İstanbul A.Ş.

#### İş Gayrimenkul Yatırım Ortaklığı A.Ş.

The Company whose main field of activity is investing in real estate, capital market instruments backed by real estate, real estate projects and capital market instruments is conducting its business in the sector as a real estate investment trust since 1999. The Company's shares are traded in the Borsa İstanbul A.Ş. since its establishment.

#### İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.

Having started its venture capital business in the year 2000, the aim of the company is performing long-term investments to venture companies which have potential development and need resources where was founded and established in Turkey. The company's shares are traded in the Borsa İstanbul A.Ş. since the year 2004.

#### İş Portföy Yönetimi A.Ş.

The purpose of the Company, which was founded in 2000, is to engage in capital market operations stated in its articles of association. Among the capital market operations, the company offers portfolio management and investment consulting services only to corporate investors.

#### İş Yatırım Menkul Değerler A.Ş.

The Company's main field of activity is composed of intermediary, corporate finance, investment consulting and private portfolio management services. The Company's shares are traded in the Borsa İstanbul A.Ş. since May 2007.

#### İş Yatırım Ortaklığı A.Ş.

The aim of the Company, which was founded in İstanbul in the year 1995, is operating capital market activities which is located in the principal agreement, is portfolio management. The Company's shares are traded in the Borsa İstanbul A.Ş. since April 1996.

#### İşbank AG

İşbank AG was founded to carry out the banking transactions in Europe. İşbank AG has 17 branches in total, 13 branches in Germany, 1 branch in Netherlands, France, Switzerland and Bulgaria.

#### JSC İşbank

The Bank, which was founded in 1998 and headquartered in Moscow, operating banking services by focusing on deposit, loan and brokerage operations with its 5 branches in several regions of Russian Federation.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### JSC Isbank Georgia

The Bank which was established in Georgia in the third quarter of 2015, is operating banking services mainly deposit, loan and exchange transactions. As part of the organizational structure of Parent Bank in abroad, Batumi and Tbilisi branches which were established in 2012 and 2014 respectively and proceed its operations as JSC Isbank Georgia.

#### Maxis Investments Ltd.

The purpose of the Company, which was founded in England in the year 2005, is to operate in activities in foreign capital markets.

#### Milli Reasürans T.A.Ş.

The Company, which was founded in 1929 to provide reinsurance services is located in Istanbul.

#### TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.

The major field of activity of the Company, which was founded in 2006, is to create and develop an investment property portfolio and to invest in capital market instruments that are based on investment properties. The Company's shares are traded in the Borsa İstanbul A.Ş. since April 2010.

#### Türkiye Sınai Kalkınma Bankası A.Ş.

Türkiye Sınai Kalkınma Bankası A.Ş. (TSKB) which is an industrial development and an investment bank is founded especially to support private sector investments in industry and to provide domestic and foreign capital to Turkish companies. The Bank's shares are traded in the Borsa İstanbul A.Ş.

#### Yatırım Finansman Menkul Değerler A.Ş.

The Company was founded in İstanbul in 1976. The purpose of the Company is to engage in capital market operations stated in its articles of association. The company's headquarters is in Istanbul.

#### **VII. Existing or Potential, Actual or Legal Obstacles on the Transfer of Shareholders' Equity Between the Parent Bank and its Subsidiaries or the Reimbursement of Liabilities**

None.

#### **VIII. Written Policies on Assessment of Ensuring Compliance on Market Discipline, Disclosure Obligations, Frequency and Accuracy of the Related Disclosures**

The Parent Bank has written policies on assessment of ensuring compliance on market discipline, disclosure obligations, frequency and accuracy of related disclosures. The mentioned policies which are agreed by Board can be obtained from the Parent Bank's website.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Consolidated Financial Statements  
(Statement of Financial Position)

ASSETS		Footnotes	THOUSAND TL					
			CURRENT PERIOD(31/12/2016)			PRIOR PERIOD (31/12/2015)		
			TL	FC	Total	TL	FC	Total
I.	CASH AND BALANCES WITH THE CENTRAL BANK	V-I-a	6,277,458	26,955,673	33,233,131	3,329,033	29,160,943	32,489,976
II.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	V-I-b	1,100,623	2,335,121	3,435,744	1,160,527	1,342,922	2,503,449
2.1	Financial Assets Held for Trading		1,100,623	2,335,121	3,435,744	1,160,527	1,342,922	2,503,449
2.1.1	Government Debt Securities		499,667	6,552	506,219	391,672	9,064	400,736
2.1.2	Equity Securities		141,396	-	141,396	79,367	121	79,488
2.1.3	Derivative Financial Assets Held for Trading		40,030	2,301,736	2,341,766	149,282	1,302,717	1,451,999
2.1.4	Other Marketable Securities		419,530	26,833	446,363	540,206	31,020	571,226
2.2	Financial Assets at Fair Value Through Profit and Loss		-	-	-	-	-	-
2.2.1	Government Debt Securities		-	-	-	-	-	-
2.2.2	Equity Securities		-	-	-	-	-	-
2.2.3	Loans		-	-	-	-	-	-
2.2.4	Other Marketable Securities		-	-	-	-	-	-
III.	BANKS	V-I-c	2,779,957	6,477,836	9,257,793	1,658,379	4,717,715	6,376,094
IV.	MONEY MARKET PLACEMENTS		275,700	191,138	466,838	1,297,194	11,009	1,308,203
4.1	Interbank Money Market Placements		-	191,138	191,138	-	-	-
4.2	Istanbul Stock Exchange Money Market Placements		261,286	-	261,286	1,287,534	-	1,287,534
4.3	Receivables from Reverse Repurchase Agreements		14,414	-	14,414	9,660	11,009	20,669
V.	FINANCIAL ASSETS AVAILABLE-FOR-SALE (Net)	V-I-d	38,168,227	13,602,145	51,770,372	35,679,613	11,329,729	47,009,342
5.1	Equity Securities		65,618	109,686	175,304	82,660	266,500	349,160
5.2	Government Debt Securities		37,494,912	11,722,552	49,217,464	34,968,833	9,802,942	44,771,775
5.3	Other Marketable Securities		607,697	1,769,907	2,377,604	628,120	1,260,287	1,888,407
VI.	LOANS AND RECEIVABLES	V-I-e	125,891,447	99,404,215	225,295,662	116,229,454	77,708,373	193,937,827
6.1	Loans and Receivables		124,678,344	99,357,939	224,036,283	115,215,974	77,693,485	192,909,459
6.1.1	Loans to the Bank's Risk Group		143,466	77,765	221,231	159,179	167,032	326,211
6.1.2	Government Debt Securities		-	-	-	-	-	-
6.1.3	Other		124,534,878	99,280,174	223,815,052	115,056,795	77,526,453	192,583,248
6.2	Non-Performing Loans		5,104,267	169,214	5,273,481	3,791,534	128,697	3,920,231
6.3	Specific Provisions (-)		3,891,164	122,938	4,014,102	2,778,054	113,809	2,891,863
VII.	FACTORING RECEIVABLES		2,542,973	442,584	2,985,557	1,617,795	333,483	1,951,278
VIII.	HELD TO MATURITY INVESTMENTS (Net)	V-I-f	6,375,960	381,798	6,757,758	4,224,904	272,513	4,497,417
8.1	Government Debt Securities		6,262,251	186,739	6,448,990	4,153,244	157,408	4,310,652
8.2	Other Marketable Securities		113,709	195,059	308,768	71,660	115,105	186,765
IX.	INVESTMENTS IN ASSOCIATES (Net)	V-I-g	176,074	-	176,074	166,792	-	166,792
9.1	Associates Accounted for Using the Equity Method		134,584	-	134,584	126,240	-	126,240
9.2	Unconsolidated Associates		41,490	-	41,490	40,552	-	40,552
9.2.1	Financial Investments		-	-	-	-	-	-
9.2.2	Non-Financial Investments		41,490	-	41,490	40,552	-	40,552
X.	INVESTMENTS IN SUBSIDIARIES (Net)	V-I-h	5,831,815	-	5,831,815	4,779,842	-	4,779,842
10.1	Unconsolidated Financial Subsidiaries		-	-	-	-	-	-
10.2	Unconsolidated Non-Financial Subsidiaries		5,831,815	-	5,831,815	4,779,842	-	4,779,842
XI.	JOINTLY CONTROLLED ENTITIES (JOINT VENTURES) (Net)	V-I-i	2,260	-	2,260	2,260	-	2,260
11.1	Jointly Controlled Entities Accounted for Using the Equity Method		-	-	-	-	-	-
11.2	Unconsolidated Jointly Controlled Entities		2,260	-	2,260	2,260	-	2,260
11.2.1	Jointly Controlled Financial Entities		-	-	-	-	-	-
11.2.2	Jointly Controlled Non-Financial Entities		2,260	-	2,260	2,260	-	2,260
XII.	LEASE RECEIVABLES	V-I-j	1,410,344	2,391,898	3,802,242	1,147,324	2,051,987	3,199,311
12.1	Finance Lease Receivables		1,693,541	2,638,959	4,332,500	1,379,133	2,300,873	3,680,006
12.2	Operating Lease Receivables		7,878	-	7,878	2,776	-	2,776
12.3	Other		-	-	-	-	-	-
12.4	Unearned Income (-)		291,075	247,061	538,136	234,585	248,886	483,471
XIII.	DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING	V-I-k	-	272	272	-	4,093	4,093
13.1	Fair Value Hedges		-	272	272	-	4,093	4,093
13.2	Cash Flow Hedges		-	-	-	-	-	-
13.3	Net Foreign Investment Hedges		-	-	-	-	-	-
XIV.	TANGIBLE ASSETS (Net)	V-I-l	5,803,067	58,232	5,861,299	5,817,603	51,059	5,868,662
XV.	INTANGIBLE ASSETS (Net)	V-I-m	503,646	75,837	579,483	457,906	48,855	506,761
15.1	Goodwill		35,974	-	35,974	35,974	-	35,974
15.2	Other		467,672	75,837	543,509	421,932	48,855	470,787
XVI.	INVESTMENT PROPERTY (Net)	V-I-n	3,373,451	-	3,373,451	2,962,675	-	2,962,675
XVII.	TAX ASSETS	V-I-o	511,009	126,596	637,605	632,442	21,545	653,987
17.1	Current Tax Assets		41,147	4,774	45,921	51,752	10,374	62,126
17.2	Deferred Tax Assets		469,862	121,822	591,684	580,690	11,171	591,861
XVIII.	ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	V-I-p	92,839	13,975	106,814	55,522	11,797	67,319
18.1	Held for Sale		92,839	13,975	106,814	55,522	11,797	67,319
18.2	Discontinued Operations		-	-	-	-	-	-
XIX.	OTHER ASSETS	V-I-q	17,655,666	2,590,428	20,246,094	14,430,339	2,783,345	17,213,684
<b>TOTAL ASSETS</b>			<b>218,772,516</b>	<b>155,047,748</b>	<b>373,820,264</b>	<b>195,649,604</b>	<b>129,849,368</b>	<b>325,498,972</b>

# Türkiye İş Bankası A.Ş.

## Consolidated Financial Statements

### (Statement of Financial Position)

	LIABILITIES	Footnotes	THOUSAND TL					
			CURRENT PERIOD (31/12/2016)			PRIOR PERIOD (31/12/2015)		
			TL	FC	Total	TL	FC	Total
<b>I.</b>	<b>DEPOSITS</b>		<b>87,276,252</b>	<b>91,883,186</b>	<b>179,159,438</b>	<b>71,476,389</b>	<b>82,724,901</b>	<b>154,201,290</b>
1.1	Deposits from the Bank's Risk Group	V-II-a	1,471,070	2,410,677	3,881,747	499,932	2,996,451	3,496,383
1.2	Other		85,805,182	89,472,509	175,277,691	70,976,457	79,728,450	150,704,907
<b>II.</b>	<b>DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>		<b>609,046</b>	<b>696,039</b>	<b>1,305,085</b>	<b>434,206</b>	<b>771,942</b>	<b>1,206,148</b>
<b>III.</b>	<b>FUNDS BORROWED</b>		<b>3,903,307</b>	<b>48,262,772</b>	<b>52,166,079</b>	<b>4,572,972</b>	<b>40,895,562</b>	<b>45,468,534</b>
<b>IV.</b>	<b>MONEY MARKET FUNDS</b>		<b>21,542,364</b>	<b>3,431,639</b>	<b>24,974,003</b>	<b>21,440,842</b>	<b>3,183,591</b>	<b>24,624,433</b>
4.1	Interbank Money Market Funds		3,861,679	-	3,861,679	-	-	-
4.2	Istanbul Stock Exchange Money Market Funds		3,099,024	-	3,099,024	1,788,893	-	1,788,893
4.3	Funds Provided Under Repurchase Agreements		14,581,661	3,431,639	18,013,300	19,651,949	3,183,591	22,835,540
<b>V.</b>	<b>MARKETABLE SECURITIES ISSUED (Net)</b>		<b>7,898,055</b>	<b>20,762,626</b>	<b>28,660,681</b>	<b>8,612,253</b>	<b>15,467,305</b>	<b>24,079,558</b>
5.1	Bills		6,574,877	206,424	6,781,301	7,461,176	1,927,381	9,388,557
5.2	Asset-backed Securities		-	-	-	-	-	-
5.3	Bonds		1,323,178	20,556,202	21,879,380	1,151,077	13,539,924	14,691,001
<b>VI.</b>	<b>FUNDS</b>		<b>1,511</b>	<b>3,806</b>	<b>5,317</b>	<b>1,690</b>	<b>28,987</b>	<b>30,677</b>
6.1	Borrower funds		1,511	3,806	5,317	1,690	28,987	30,677
6.2	Other		-	-	-	-	-	-
<b>VII.</b>	<b>MISCELLANEOUS PAYABLES</b>		<b>20,483,739</b>	<b>1,910,162</b>	<b>22,393,901</b>	<b>16,618,658</b>	<b>1,222,965</b>	<b>17,841,623</b>
<b>VIII.</b>	<b>OTHER LIABILITIES</b>		<b>2,104,485</b>	<b>905,758</b>	<b>3,010,243</b>	<b>2,050,090</b>	<b>819,637</b>	<b>2,869,727</b>
<b>IX.</b>	<b>FACTORING PAYABLES</b>		-	-	-	-	-	-
<b>X.</b>	<b>LEASE PAYABLES (Net)</b>		-	-	-	-	-	-
10.1	Finance Lease Payables		-	-	-	-	-	-
10.2	Operating Lease Payables		-	-	-	-	-	-
10.3	Other		-	-	-	-	-	-
10.4	Deferred Financial Lease Expenses (-)		-	-	-	-	-	-
<b>XI.</b>	<b>DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT</b>		-	<b>51,433</b>	<b>51,433</b>	-	<b>5,799</b>	<b>5,799</b>
11.1	Fair Value Hedges		-	51,433	51,433	-	5,799	5,799
11.2	Cash Flow Hedges		-	-	-	-	-	-
11.3	Net Foreign Investment Hedges		-	-	-	-	-	-
<b>XII.</b>	<b>PROVISIONS</b>		<b>13,715,949</b>	<b>1,202,986</b>	<b>14,918,935</b>	<b>12,596,043</b>	<b>966,251</b>	<b>13,562,294</b>
12.1	General Loan Loss Provisions		3,232,407	53,686	3,286,093	2,972,728	42,664	3,015,392
12.2	Provision for Restructuring		-	-	-	-	-	-
12.3	Reserves for Employee Benefits		696,381	2,390	698,771	613,598	2,051	615,649
12.4	Insurance Technical Reserves (Net)		5,839,334	1,101,649	6,940,983	5,231,611	898,929	6,130,540
12.5	Other Provisions		3,947,827	45,261	3,993,088	3,778,106	22,607	3,800,713
<b>XIII.</b>	<b>TAX LIABILITIES</b>		<b>500,036</b>	<b>18,235</b>	<b>518,271</b>	<b>719,474</b>	<b>12,920</b>	<b>732,394</b>
13.1	Current Tax Liabilities		477,043	18,235	495,278	713,575	12,920	726,495
13.2	Deferred Tax Liabilities		22,993	-	22,993	5,899	-	5,899
<b>XIV.</b>	<b>LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS</b>		-	-	-	-	-	-
14.1	Held for Sale		-	-	-	-	-	-
14.2	Discontinued Operations		-	-	-	-	-	-
<b>XV.</b>	<b>SUBORDINATED DEBT</b>		-	<b>4,930,016</b>	<b>4,930,016</b>	-	<b>4,192,969</b>	<b>4,192,969</b>
<b>XVI.</b>	<b>SHAREHOLDERS' EQUITY</b>		<b>42,120,477</b>	<b>(393,615)</b>	<b>41,726,862</b>	<b>36,544,375</b>	<b>139,151</b>	<b>36,683,526</b>
16.1	Paid-in Capital		4,500,000	-	4,500,000	4,500,000	-	4,500,000
16.2	Capital Reserves		6,276,338	(572,646)	5,703,692	5,516,657	45,977	5,562,634
16.2.1	Share premium		33,941	-	33,941	33,941	-	33,941
16.2.2	Share Cancellation Profits		-	-	-	-	-	-
16.2.3	Marketable Securities Value Increase Fund		1,988,503	(572,956)	1,415,547	1,191,800	44,411	1,236,211
16.2.4	Tangible Assets Revaluation Reserve		2,669,198	310	2,669,508	2,707,478	1,566	2,709,044
16.2.5	Intangible Assets Revaluation Reserve		-	-	-	-	-	-
16.2.6	Investment Property Revaluation Reserve		-	-	-	-	-	-
16.2.7	Bonus Shares Obtained from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		(1,179)	-	(1,179)	(1,179)	-	(1,179)
16.2.8	Hedging Reserves (Effective Portion)		-	-	-	-	-	-
16.2.9	Accumulated Revaluation Reserves on Assets Held for Sale and Discontinued Operations		-	-	-	-	-	-
16.2.10	Other Capital Reserves		1,585,875	-	1,585,875	1,584,617	-	1,584,617
16.3	Profit Reserves		21,053,306	327,077	21,380,383	18,567,313	180,783	18,748,096
16.3.1	Legal Reserves		3,041,719	1,563	3,043,282	2,773,526	1,363	2,774,889
16.3.2	Statutory Reserves		81,638	-	81,638	71,201	-	71,201
16.3.3	Extraordinary Reserves		17,934,989	30,173	17,965,162	15,770,545	26,761	15,797,306
16.3.4	Other Profit Reserves		(5,040)	295,341	290,301	(47,959)	152,659	104,700
16.4	Profit or Loss		5,220,514	(128,119)	5,092,395	3,402,686	(91,074)	3,311,612
16.4.1	Prior Years' Profit/Loss		187,816	(94,377)	93,439	73,186	(92,314)	(19,128)
16.4.2	Current Period Profit/Loss		5,032,698	(33,742)	4,998,956	3,329,500	1,240	3,330,740
16.5	Non-controlling Interest		5,070,319	(19,927)	5,050,392	4,557,719	3,465	4,561,184
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>200,155,221</b>	<b>173,665,043</b>	<b>373,820,264</b>	<b>175,066,992</b>	<b>150,431,980</b>	<b>325,498,972</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Consolidated Statement of  
Off-Balance Sheet Items

OFF-BALANCE SHEET ITEMS	Footnotes	THOUSAND TL					
		CURRENT PERIOD (31/12/2016)			PRIOR PERIOD (31/12/2015)		
		TL	FC	Total	TL	FC	Total
<b>A. OFF-BALANCE SHEET CONTINGENCIES AND COMMITMENTS (I+II+III)</b>		<b>106,253,588</b>	<b>197,000,497</b>	<b>303,254,085</b>	<b>101,375,370</b>	<b>157,624,155</b>	<b>258,999,525</b>
<b>I. GUARANTEES AND SURETYSHIPS</b>	V-III	<b>22,572,311</b>	<b>43,375,323</b>	<b>65,947,634</b>	<b>20,849,553</b>	<b>32,062,712</b>	<b>52,912,265</b>
1.1 Letters of Guarantee		22,237,636	26,741,082	48,978,718	20,561,735	19,279,873	39,841,608
1.1.1 Guarantees Subject to State Tender Law		851,339	2,676,089	3,527,428	804,216	2,524,859	3,329,075
1.1.2 Guarantees Given for Foreign Trade Operations		2,993,963	10,604,479	13,598,442	3,540,122	6,843,585	10,383,707
1.1.3 Other Letters of Guarantee		18,392,334	13,460,514	31,852,848	16,217,397	9,911,429	26,128,826
1.2 Bank Acceptances		-	2,579,744	2,579,744	4,821	950,759	955,580
1.2.1 Import Letters of Acceptance		-	121,307	121,307	-	135,844	135,844
1.2.2 Other Bank Acceptances		-	2,458,437	2,458,437	4,821	814,915	819,736
1.3 Letters of Credit		10,351	12,973,067	12,983,418	5,655	10,900,839	10,906,494
1.3.1 Documentary Letters of Credit		996	10,563,404	10,564,400	5,067	8,404,696	8,409,763
1.3.2 Other Letters of Credit		9,355	2,409,663	2,419,018	588	2,496,143	2,496,731
1.4 Prefinancing Given as Guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2 Other Endorsements		-	-	-	-	-	-
1.6 Purchase Guarantees for Securities Issued		-	-	-	-	-	-
1.7 Factoring Guarantees		62,084	19,746	81,830	50,022	14,269	64,291
1.8 Other Guarantees		262,240	1,061,684	1,323,924	227,320	916,972	1,144,292
1.9 Other Suretyships		-	-	-	-	-	-
<b>II. COMMITMENTS</b>		<b>48,273,869</b>	<b>18,489,868</b>	<b>66,763,737</b>	<b>43,118,249</b>	<b>15,796,161</b>	<b>58,914,410</b>
2.1 Irrevocable Commitments		46,763,672	6,610,251	53,373,923	42,559,743	5,229,275	47,789,018
2.1.1 Forward Asset Purchase Commitments		964,964	3,600,621	4,565,585	208,436	3,063,854	3,272,290
2.1.2 Forward Deposit Purchase and Sale Commitments		-	-	-	-	-	-
2.1.3 Capital Commitment for Associates and Subsidiaries		-	68,367	68,367	-	-	-
2.1.4 Loan Granting Commitments		11,604,286	380,413	11,984,699	10,355,068	427,173	10,782,241
2.1.5 Securities Underwriting Commitments		-	-	-	-	-	-
2.1.6 Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7 Commitments for Cheque Payments		5,776,407	-	5,776,407	5,654,056	-	5,654,056
2.1.8 Tax and Fund Liabilities from Export Commitments		14,019	-	14,019	11,630	-	11,630
2.1.9 Commitments for Credit Card Expenditure Limits		22,217,478	-	22,217,478	21,219,999	-	21,219,999
2.1.10 Commitments for Credit Cards and Banking Services Promotions		100,048	-	100,048	100,470	-	100,470
2.1.11 Receivables from Short Sale Commitments		-	-	-	-	-	-
2.1.12 Payables for Short Sale Commitments		-	-	-	12,960	-	12,960
2.1.13 Other Irrevocable Commitments		6,086,470	2,560,850	8,647,320	4,997,124	1,738,248	6,735,372
2.2 Revocable Commitments		1,510,197	11,879,617	13,389,814	558,506	10,566,886	11,125,392
2.2.1 Revocable Loan Granting Commitments		1,510,197	11,879,617	13,389,814	558,506	10,566,886	11,125,392
2.2.2 Other Revocable Commitments		-	-	-	-	-	-
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>		<b>35,407,408</b>	<b>135,135,306</b>	<b>170,542,714</b>	<b>37,407,568</b>	<b>109,765,282</b>	<b>147,172,850</b>
3.1 Derivative Financial Instruments held for risk management		-	7,747,800	7,747,800	-	4,689,900	4,689,900
3.1.1 Fair Value Hedges		-	7,747,800	7,747,800	-	4,689,900	4,689,900
3.1.2 Cash Flow Hedges		-	-	-	-	-	-
3.1.3 Net Foreign Investment Hedges		-	-	-	-	-	-
3.2 Derivative Financial Instruments Held for Trading		35,407,408	127,387,506	162,794,914	37,407,568	105,075,382	142,482,950
3.2.1 Forward Foreign Currency Buy/Sell Transactions		5,482,979	18,024,200	23,507,179	3,450,436	9,706,595	13,157,031
3.2.1.1 Forward Foreign Currency Buy Transactions		2,559,338	9,224,059	11,783,397	1,693,095	4,859,603	6,552,698
3.2.1.2 Forward Foreign Currency Sell Transactions		2,923,641	8,800,141	11,723,782	1,757,341	4,846,992	6,604,333
3.2.2 Currency and Interest Rate Swaps		25,023,381	98,599,195	123,622,576	28,757,554	81,872,212	110,629,766
3.2.2.1 Currency Swap Buy Transactions		8,923,721	29,737,150	38,660,871	6,368,873	29,957,234	36,326,107
3.2.2.2 Currency Swap Sell Transactions		15,633,248	20,521,585	36,154,833	19,470,401	13,851,644	33,322,045
3.2.2.3 Interest Rate Swap Buy Transactions		233,206	24,170,230	24,403,436	1,459,140	19,031,667	20,490,807
3.2.2.4 Interest Rate Swap Sell Transactions		233,206	24,170,230	24,403,436	1,459,140	19,031,667	20,490,807
3.2.3 Currency, Interest Rate and Security Options		4,845,189	7,243,335	12,088,524	4,771,805	8,141,048	12,912,853
3.2.3.1 Currency Call Options		2,548,688	2,847,816	5,396,504	3,282,994	2,575,568	5,858,562

# Türkiye İş Bankası A.Ş.

## Consolidated Statement of Off-Balance Sheet Items

OFF-BALANCE SHEET ITEMS		Footnotes	THOUSAND TL					
			CURRENT PERIOD (31/12/2016)			PRIOR PERIOD (31/12/2015)		
			TL	FC	Total	TL	FC	Total
3.2.3.2	Currency Put Options		2,259,423	3,120,291	5,379,714	1,454,146	4,063,038	5,517,184
3.2.3.3	Interest Rate Call Options		-	637,614	637,614	0	751,221	751,221
3.2.3.4	Interest Rate Put Options		-	637,614	637,614	0	751,221	751,221
3.2.3.5	Securities Call Options		11,923	-	11,923	19,718	-	19,718
3.2.3.6	Securities Put Options		25,155	-	25,155	14,947	-	14,947
3.2.4	Currency Futures		5,474	5,475	10,949	769	770	1,539
3.2.4.1	Currency Buy Futures		4,857	618	5,475	769	-	769
3.2.4.2	Currency Sell Futures		617	4,857	5,474	-	770	770
3.2.5	Interest Rate Futures		-	-	-	-	-	-
3.2.5.1	Interest Rate Buy Futures		-	-	-	-	-	-
3.2.5.2	Interest Rate Sell Futures		-	-	-	-	-	-
3.2.6	Other		50,385	3,515,301	3,565,686	427,004	5,354,757	5,781,761
<b>B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)</b>			<b>392,916,336</b>	<b>297,007,290</b>	<b>689,923,626</b>	<b>350,869,565</b>	<b>215,824,353</b>	<b>566,693,918</b>
<b>IV. ITEMS HELD IN CUSTODY</b>			<b>87,635,056</b>	<b>15,970,783</b>	<b>103,605,839</b>	<b>110,258,265</b>	<b>12,739,248</b>	<b>122,997,513</b>
4.1	Customers' Securities Held		-	-	-	-	-	-
4.2	Investment Securities Held in Custody		68,742,845	1,941,700	70,684,545	92,530,590	966,273	93,496,863
4.3	Cheques Received for Collection		15,626,568	4,641,245	20,267,813	14,310,435	3,962,914	18,273,349
4.4	Commercial Notes Received for Collection		2,852,871	7,667,100	10,519,971	2,990,258	6,503,195	9,493,453
4.5	Other Assets Received for Collection		6,409	496	6,905	13,560	2,638	16,198
4.6	Assets Received for Public Offering		2,541	-	2,541	2,541	-	2,541
4.7	Other Items under Custody		403,822	1,720,242	2,124,064	410,881	1,304,228	1,715,109
4.8	Custodians		-	-	-	-	-	-
<b>V. PLEDGED ITEMS</b>			<b>305,281,280</b>	<b>281,036,507</b>	<b>586,317,787</b>	<b>240,611,300</b>	<b>203,085,105</b>	<b>443,696,405</b>
5.1	Marketable Securities		15,595,695	25,512,016	41,107,711	15,932,469	18,680,578	34,613,047
5.2	Guarantee Notes		6,614,277	16,521,162	23,135,439	6,195,668	12,822,301	19,017,969
5.3	Commodity		70,103,065	14,824,025	84,927,090	51,707,000	12,762,242	64,469,242
5.4	Warranty		-	-	-	-	-	-
5.5	Real Estates		183,624,065	141,536,997	325,161,062	149,817,573	98,649,672	248,467,245
5.6	Other Pledged Items		29,344,178	82,642,307	111,986,485	16,958,590	60,170,312	77,128,902
5.7	Pledged Items-Depository		-	-	-	-	-	-
<b>VI. ACCEPTED BILL GUARANTEES AND SURETIES</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL OFF-BALANCE SHEET ITEMS (A+B)</b>			<b>499,169,924</b>	<b>494,007,787</b>	<b>993,177,711</b>	<b>452,244,935</b>	<b>373,448,508</b>	<b>825,693,443</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Consolidated  
Statement of Income

INCOME STATEMENT		Footnotes	THOUSAND TL	
			CURRENT PERIOD (01/01-31/12/2016)	PRIOR PERIOD (01/01-31/12/2015)
<b>I.</b>	<b>INTEREST INCOME</b>	V-IV-a	<b>25,061,299</b>	<b>21,406,966</b>
1.1	Interest Income on Loans		19,086,934	16,488,975
1.2	Interest Income on Reserve Deposits		222,716	65,919
1.3	Interest Income on Banks		522,260	258,602
1.4	Interest Income on Money Market Placements		164,069	96,233
1.5	Interest Income on Marketable Securities Portfolio		4,588,942	4,082,312
1.5.1	Financial Assets Held for Trading		95,993	80,532
1.5.2	Financial Assets at Fair Value Through Profit and Loss		-	-
1.5.3	Financial Assets Available for Sale		4,039,556	3,880,470
1.5.4	Held to Maturity Investments		453,393	121,310
1.6	Finance Lease Income		283,575	262,798
1.7	Other Interest Income		192,803	152,127
<b>II.</b>	<b>INTEREST EXPENSE</b>	V-IV-b	<b>12,639,534</b>	<b>11,211,101</b>
2.1	Interest on Deposits		7,398,882	6,281,969
2.2	Interest on Funds Borrowed		1,250,190	1,151,669
2.3	Interest on Money Market Funds		2,098,326	2,151,312
2.4	Interest on Securities Issued		1,860,738	1,589,475
2.5	Other Interest Expense		31,398	36,676
<b>III.</b>	<b>NET INTEREST INCOME/EXPENSE (I - II)</b>		<b>12,421,765</b>	<b>10,195,865</b>
<b>IV.</b>	<b>NET FEES AND COMMISSIONS INCOME/EXPENSE</b>		<b>2,148,533</b>	<b>1,807,881</b>
4.1	Fees and Commissions Received		3,460,257	2,881,717
4.1.1	Non-cash Loans		460,630	399,422
4.1.2	Other		2,999,627	2,482,295
4.2	Fees and Commissions Paid		1,311,724	1,073,836
4.2.1	Non-cash Loans		10,832	7,373
4.2.2	Other		1,300,892	1,066,463
<b>V.</b>	<b>DIVIDEND INCOME</b>	V-IV-c	<b>318,223</b>	<b>256,696</b>
<b>VI.</b>	<b>TRADING INCOME/LOSS (NET)</b>	V-IV-d	<b>(417,002)</b>	<b>(325,160)</b>
6.1	Gains/Losses on Securities Trading		266,715	412,464
6.2	Derivative Financial Transactions Gains/Losses		(187,206)	(897,945)
6.3	Foreign Exchange Gains/Losses		(496,511)	160,321
<b>VII.</b>	<b>OTHER OPERATING INCOME</b>	V-IV-e	<b>6,713,708</b>	<b>5,869,814</b>
<b>VIII.</b>	<b>TOTAL OPERATING INCOME/EXPENSE (III+IV+V+VI+VII)</b>		<b>21,185,227</b>	<b>17,805,096</b>
<b>IX.</b>	<b>PROVISION FOR LOSSES ON LOANS AND OTHER RECEIVABLES (-)</b>	V-IV-f	<b>2,835,495</b>	<b>2,289,722</b>
<b>X.</b>	<b>OTHER OPERATING EXPENSES (-)</b>	V-IV-g	<b>11,330,291</b>	<b>10,940,293</b>
<b>XI.</b>	<b>NET OPERATING INCOME (VIII-IX-X)</b>		<b>7,019,441</b>	<b>4,575,081</b>
<b>XII.</b>	<b>AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>		-	-
<b>XIII.</b>	<b>PROFIT/LOSS FROM ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD</b>		<b>12,871</b>	<b>14,818</b>
<b>XIV.</b>	<b>NET MONETARY POSITION GAIN/LOSS</b>		-	-
<b>XV.</b>	<b>PROFIT/LOSS ON CONTINUING OPERATIONS BEFORE TAX (XI+...+XIV)</b>	V-IV-h	<b>7,032,312</b>	<b>4,589,899</b>
<b>XVI.</b>	<b>TAX PROVISION FOR CONTINUING OPERATIONS (±)</b>	V-IV-i	<b>1,349,454</b>	<b>850,228</b>
16.1	Current Tax Provision		1,119,041	528,501
16.2	Deferred Tax Provision		230,413	321,727
<b>XVII.</b>	<b>NET PERIOD PROFIT/LOSS FROM CONTINUING OPERATIONS (XV±XVI)</b>	V-IV-j	<b>5,682,858</b>	<b>3,739,671</b>
<b>XVIII.</b>	<b>INCOME ON DISCONTINUED OPERATIONS</b>		-	-
18.1	Income on Assets Held for Sale		-	-
18.2	Gain on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	-
18.3	Other Income on Discontinued Operations		-	-
<b>XIX.</b>	<b>EXPENSE ON DISCONTINUED OPERATIONS (-)</b>		-	-
19.1	Expense on Assets Held for Sale		-	-
19.2	Loss on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	-
19.3	Other Expense on Discontinued Operations		-	-
<b>XX.</b>	<b>PROFIT/LOSS ON DISCONTINUED OPERATIONS BEFORE TAX (XVIII-XIX)</b>	V-IV-h	-	-
<b>XXI.</b>	<b>TAX PROVISION FOR DISCONTINUED OPERATIONS (±)</b>	V-IV-i	-	-
21.1	Current Tax Provision		-	-
21.2	Deferred Tax Provision		-	-
<b>XXII.</b>	<b>NET PERIOD PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)</b>	V-IV-k	-	-
<b>XXIII.</b>	<b>NET PERIOD PROFIT/LOSS (XVII+XXII)</b>	V-IV-l	<b>5,682,858</b>	<b>3,739,671</b>
23.1	Group's Profit/Loss		4,998,956	3,330,740
23.2	Non-controlling Interest (-)		683,902	408,931
	Earnings per Share (in full TL)		0.044434276	0.029605986

# Türkiye İş Bankası A.Ş.

## Consolidated Statement of Income and Expense Items Under Shareholders' Equity

		THOUSAND TL	
		CURRENT PERIOD (01/01-31/12/2016)	PRIOR PERIOD (01/01-31/12/2015)
<b>INCOME AND EXPENSE ITEMS UNDER SHAREHOLDERS' EQUITY</b>			
I.	ADDITIONS TO MARKETABLE SECURITIES VALUE INCREASE FUND FROM FINANCIAL ASSETS AVAILABLE FOR SALE	(1,081,799)	(2,320,433)
II.	REVALUATION SURPLUS ON TANGIBLE ASSETS	(41,386)	2,836,519
III.	REVALUATION SURPLUS ON INTANGIBLE ASSETS	-	-
IV.	TRANSLATION ADJUSTMENT FOR FOREIGN CURRENCY TRANSACTIONS	186,382	56,895
V.	PROFIT/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (Effective Portion of the Changes in Fair Value)	-	-
VI.	PROFIT/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR NET FOREIGN INVESTMENT HEDGES (Effective Portion of the Changes in Fair Value)	-	-
VII.	THE EFFECT OF CORRECTIONS OF THE ERRORS AND CHANGES IN THE ACCOUNTING POLICIES	-	-
VIII.	OTHER INCOME AND EXPENSES RECOGNISED UNDER SHAREHOLDERS' EQUITY ACCORDANCE WITH TAS	1,058,157	(300,529)
IX.	DEFERRED TAX EFFECT OF REVALUATION AND VALUE INCREASES	205,305	267,685
X.	NET INCOME/EXPENSE DIRECTLY RECOGNISED UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	326,659	540,137
XI.	PROFIT/LOSS FOR THE PERIOD	4,998,956	3,330,740
11.1	Net Changes in the Fair Values of Marketable Securities (Transfer to Profit/Loss)	198,663	(160,532)
11.2	The Portion of Derivative Financial Assets Held for Cash Flow Hedges Reclassified in and Transferred to Income Statement	-	-
11.3	The Portion of Derivative Financial Assets Held for Net Foreign Investment Hedges Reclassified in and Transferred to Income Statement	-	-
11.4	Other	4,800,293	3,491,272
XII.	<b>TOTAL PROFIT/LOSS RECOGNISED FOR THE PERIOD (X±XI)</b>	<b>5,325,615</b>	<b>3,870,877</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Consolidated Statement of Changes in  
Shareholders' Equity

		THOUSAND TL					
CHANGES IN SHAREHOLDERS' EQUITY		Footnotes	Capital	Paid-in Capital Inflation Adjustment	Share Premium	Share Cancellation Profits	Legal Reserves
PRIOR PERIOD (31/12/2015)		V-V					
I.	Beginning Balance		4,500,000	1,615,938	33,941	-	2,511,627
II.	Corrections Made According to TAS 8		-	-	-	-	-
2.1	The Effect of Corrections of Errors		-	-	-	-	-
2.2	The Effect of Changes in Accounting Policies		-	-	-	-	-
III.	Adjusted Beginning Balance (I+II)		4,500,000	1,615,938	33,941	-	2,511,627
Changes During the Period							
IV.	Increase/Decrease Due to Mergers		-	-	-	-	-
V.	Marketable Securities Value Increase Fund		-	-	-	-	-
VI.	Hedge Reserves (Effective Portion)		-	-	-	-	-
6.1	Cash Flow Hedges		-	-	-	-	-
6.2	Net Foreign Investment Hedges		-	-	-	-	-
VII.	Revaluation Surplus on Tangible Assets		-	-	-	-	-
VIII.	Revaluation Surplus on Intangible Assets		-	-	-	-	-
IX.	Bonus Shares from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	-	-	-	-
X.	Translation Differences		-	-	-	-	-
XI.	The Effect of Disposal of Assets		-	-	-	-	-
XII.	The Effect of Reclassification of Assets		-	-	-	-	-
XIII.	The Effect of Changes in the Equity of Subsidiaries on the Equity of the Bank		-	-	-	-	-
XIV.	Capital Increase		-	-	-	-	-
14.1	Cash		-	-	-	-	-
14.2	Internal Sources		-	-	-	-	-
XV.	Share Issue		-	-	-	-	-
XVI.	Share Cancellation Profits		-	-	-	-	-
XVII.	Paid-in-Capital Inflation Adjustment		-	-	-	-	-
XVIII.	Other (*)		-	-	-	-	-
XIX.	Net Profit/Loss for the Period		-	-	-	-	-
XX.	Profit Distribution		-	-	-	-	263,262
20.1	Dividend Paid		-	-	-	-	-
20.2	Transfer to Reserves		-	-	-	-	263,262
20.3	Other (**)		-	-	-	-	-
Ending Balance (III+IV+V...+XVIII+XIX+XX)			4,500,000	1,615,938	33,941	-	2,774,889
CURRENT PERIOD (31/12/2016)							
I.	Beginning Balance		4,500,000	1,615,938	33,941	-	2,774,889
Changes During the Period							
II.	Increase/Decrease Due to Mergers		-	-	-	-	-
III.	Marketable Securities Value Increase Fund		-	-	-	-	-
IV.	Hedge Reserves (Effective Portion)		-	-	-	-	-
4.1	Cash Flow Hedges		-	-	-	-	-
4.2	Net Foreign Investment Hedges		-	-	-	-	-
V.	Revaluation Surplus on Tangible Assets		-	-	-	-	-
VI.	Revaluation Surplus on Intangible Assets		-	-	-	-	-
VII.	Bonus Shares from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		-	-	-	-	-
VIII.	Translation Differences		-	-	-	-	-
IX.	The Effect of Disposal of Assets		-	-	-	-	-
X.	The Effect of Reclassification of Assets		-	-	-	-	-
XI.	The Effect of Changes in the Equity of Subsidiaries on the Equity of the Bank		-	-	-	-	-
XII.	Capital Increase		-	-	-	-	-
12.1	Cash		-	-	-	-	-
12.2	Internal Sources		-	-	-	-	-
XIII.	Share Issue		-	-	-	-	-
XIV.	Share Cancellation Profits		-	-	-	-	-
XV.	Paid-in-Capital Inflation Adjustment		-	-	-	-	-
XVI.	Other (*)		-	-	-	-	-
XVII.	Net Profit/Loss for the Period		-	-	-	-	-
XVIII.	Profit Distribution		-	-	-	-	268,393
18.1	Dividend Paid		-	-	-	-	-
18.2	Transfer to Reserves		-	-	-	-	268,393
18.3	Other (**)		-	-	-	-	-
Ending Balance (I+II+III...+XVI+XVII+XVIII)			4,500,000	1,615,938	33,941	-	3,043,282

(\*) Includes changes in Group's shares.

(\*\*) According to the Articles of Incorporation of the Bank, since a portion of the net profit for the period is distributed to the employees as a dividend, the provision provided for employee dividend distribution within the scope of "TAS 19-Employee Benefits", has been added to distributable profit.

THOUSAND TL													
Statutory Reserves	Extraordinary Reserves	Other Reserves	Net Current Period Profit/(Loss)	Prior Period Profit/(Loss)	Marketable Securities Value Increase Fund	Tangible and Intangible Assets Revaluation Reserve	Bonus Shares from Equity Participations	Hedge Reserves	Accumulated Rev. Reserve on Asset Held for Sale and Discontinued Oper.	Total Shareholders' Equity Except Non-controlling Interest	Non-controlling Interest	Total Shareholder's Equity	
64,234	13,300,346	39,375	-	3,415,578	3,439,122	-	(1,179)	-	-	28,918,982	4,085,584	33,004,566	
64,234	13,300,346	39,375	-	3,415,578	3,439,122	-	(1,179)	-	-	28,918,982	4,085,584	33,004,566	
-	-	-	-	-	(2,203,955)	-	-	-	-	(2,203,955)	(39,476)	(2,243,431)	
-	-	-	-	-	-	2,709,044	-	-	-	2,709,044	327,990	3,037,034	
-	-	55,851	-	-	1,044	-	-	-	-	56,895	(747)	56,148	
-	-	(21,847)	3,330,740	42,870	-	-	-	-	-	21,023	(92,012)	(70,989)	
6,967	2,496,960	-	-	(3,477,576)	-	-	-	-	-	3,330,740	408,931	3,739,671	
6,967	2,366,336	-	-	(841,011)	-	-	-	-	-	(710,387)	(129,086)	(839,473)	
-	130,624	-	-	(2,636,565)	-	-	-	-	-	(841,011)	(129,732)	(970,743)	
-	-	-	-	-	-	-	-	-	-	130,624	646	131,270	
71,201	15,797,306	73,379	3,330,740	(19,128)	1,236,211	2,709,044	(1,179)	-	-	32,122,342	4,561,184	36,683,526	
71,201	15,797,306	73,379	-	3,311,612	1,236,211	2,709,044	(1,179)	-	-	32,122,342	4,561,184	36,683,526	
-	-	-	-	-	178,555	-	-	-	-	178,555	(3,533)	175,022	
-	-	-	-	-	-	(39,536)	-	-	-	(39,536)	(13,151)	(52,687)	
-	-	185,601	-	-	781	-	-	-	-	186,382	(2,039)	184,343	
-	4,717	1,258	4,998,956	43,442	-	-	-	-	-	49,417	(58,900)	(9,483)	
10,437	2,163,139	-	-	(3,261,615)	-	-	-	-	-	4,998,956	683,902	5,682,858	
10,437	2,046,653	-	-	(936,132)	-	-	-	-	-	(819,646)	(117,071)	(936,717)	
-	116,486	-	-	(2,325,483)	-	-	-	-	-	(936,132)	(118,060)	(1,054,192)	
-	-	-	-	-	-	-	-	-	-	116,486	989	117,475	
81,638	17,965,162	260,238	4,998,956	93,439	1,415,547	2,669,508	(1,179)	-	-	36,676,470	5,050,392	41,726,862	

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Consolidated Statement of  
Cash Flows

		THOUSAND TL		
		Footnotes	CURRENT PERIOD (01/01-31/12/2016)	PRIOR PERIOD (01/01-31/12/2015)
<b>A.</b>	<b>CASH FLOWS FROM BANKING OPERATIONS</b>			
<b>1.1</b>	<b>Operating Profit Before Changes in Operating Assets and Liabilities</b>		<b>14,468,280</b>	<b>11,801,276</b>
1.1.1	Interest Received		24,196,904	20,678,956
1.1.2	Interest Paid		(12,441,604)	(10,954,988)
1.1.3	Dividend Received		196,775	90,989
1.1.4	Fees and Commissions Received		3,460,257	2,881,717
1.1.5	Other Income		5,861,916	5,700,209
1.1.6	Collections from Previously Written Off Loans and Other Receivables		530,102	435,290
1.1.7	Cash Payments to Personnel and Service Suppliers		(5,636,536)	(5,061,472)
1.1.8	Taxes Paid		(1,664,825)	(816,574)
1.1.9	Other	V-VI	(34,709)	(1,152,851)
<b>1.2</b>	<b>Changes in Operating Assets and Liabilities</b>		<b>(2,559,827)</b>	<b>(7,074,686)</b>
1.2.1	Net (Increase) Decrease in Financial Assets Held for Trading		(42,222)	117,852
1.2.2	Net (Increase) Decrease in Financial Assets at Fair Value through Profit or Loss		-	-
1.2.3	Net (Increase) Decrease in Due From Banks		2,825,491	(8,327,686)
1.2.4	Net (Increase) Decrease in Loans		(18,526,584)	(17,249,126)
1.2.5	Net (Increase) Decrease in Other Assets		(2,939,317)	(4,390,702)
1.2.6	Net Increase (Decrease) in Bank Deposits		(1,700,112)	476,491
1.2.7	Net Increase (Decrease) in Other Deposits		14,630,539	10,067,293
1.2.8	Net Increase (Decrease) in Funds Borrowed		(1,154,627)	7,511,563
1.2.9	Net Increase (Decrease) in Matured Payables		-	-
1.2.10	Net Increase (Decrease) in Other Liabilities	V-VI	4,347,005	4,719,629
<b>I.</b>	<b>Net Cash Provided From Banking Operations</b>		<b>11,908,453</b>	<b>4,726,590</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>II.</b>	<b>Net Cash Provided from/Used in Investing Activities</b>		<b>(5,611,119)</b>	<b>(5,612,403)</b>
2.1	Cash Paid for Purchase of Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		(11,938)	(37,100)
2.2	Cash Obtained from Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		20,596	23,203
2.3	Tangible Asset Purchases		(429,054)	(985,381)
2.4	Tangible Asset Sales		259,054	379,855
2.5	Cash Paid for Purchase of Financial Assets Available for Sale		(16,741,259)	(16,290,932)
2.6	Cash Obtained from Sales of Financial Assets Available for Sale		12,245,360	10,578,811
2.7	Cash Paid for Purchase of Investment Securities Held to Maturity		(1,471,950)	(486,510)
2.8	Cash Obtained from Sales of Investment Securities Held to Maturity <sup>(*)</sup>		858,288	1,545,224
2.9	Other	V-VI	(340,216)	(339,573)
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III.</b>	<b>Net Cash Provided from/Used in Financing Activities</b>		<b>(941,342)</b>	<b>1,299,849</b>
3.1	Cash Obtained from Funds Borrowed and Securities Issued		23,664,699	23,894,082
3.2	Cash Used for Repayment of Funds Borrowed and Securities Issued		(23,551,849)	(21,623,490)
3.3	Equity Instruments		-	-
3.4	Dividends Paid		(1,054,192)	(970,743)
3.5	Payments for Finance Leases		-	-
3.6	Other	V-VI	-	-
<b>IV.</b>	<b>Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b>	<b>V-VI</b>	<b>145,364</b>	<b>(57,933)</b>
<b>V.</b>	<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>5,501,356</b>	<b>356,103</b>
<b>VI.</b>	<b>Cash and Cash Equivalents at Beginning of the Period</b>		<b>14,467,773</b>	<b>13,562,316</b>
<b>VII.</b>	<b>Cash and Cash Equivalents at End of the Period</b>		<b>19,969,129</b>	<b>13,918,419</b>

(\*) Redeemed investment securities are included.

# Türkiye İş Bankası A.Ş.

## Consolidated Statement of Profit Distribution Table

		THOUSAND TL	
		CURRENT PERIOD (31/12/2016)	PRIOR PERIOD (31/12/2015)
<b>I.</b>	<b>DISTRIBUTION OF CURRENT YEAR PROFIT <sup>(1)</sup></b>		
1.1	CURRENT PERIOD PROFIT <sup>(2)</sup>	5,753,782	3,907,244
1.2	TAXES AND DUES PAYABLE (-)	1,052,576	701,006
1.2.1	Corporate Tax (Income Tax)	881,766	386,166
1.2.2	Income Tax Withholding	8,230	5,984
1.2.3	Other Taxes and Dues Payable <sup>(3)</sup>	162,580	308,856
<b>A.</b>	<b>NET PROFIT FOR THE PERIOD (1.1-1.2)</b>	<b>4,701,206</b>	<b>3,206,238</b>
1.3	PRIOR YEARS' LOSSES (-)	-	-
1.4	FIRST LEGAL RESERVES (-)	-	159,190
1.5	OTHER STATUTORY RESERVES (-)	-	1,957,762
<b>B.</b>	<b>NET PROFIT ATTRIBUTABLE TO [(A)-(1.3+1.4+1.5)]</b>	<b>4,701,206</b>	<b>1,089,286</b>
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	270,000
1.6.1	To Owners of Ordinary Shares	-	269,998
1.6.2	To Owners of Preferred Shares	-	2
1.6.3	To Preferred Shares (Preemptive Rights)	-	-
1.6.4	To Profit Sharing Bonds	-	-
1.6.5	To Holders of Profit/Loss Share Certificates	-	-
1.7	DIVIDENDS TO PERSONNEL (-)	-	163,969
1.8	DIVIDENDS TO THE BOARD OF DIRECTORS (-)	-	1,491
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	500,672
1.9.1	To Owners of Ordinary Shares	-	500,664
1.9.2	To Owners of Preferred Shares	-	3
1.9.3	To Preferred Shares (Preemptive Rights)	-	5
1.9.4	To Profit Sharing Bonds	-	-
1.9.5	To Holders of Profit/Loss Share Certificates	-	-
1.10	SECOND LEGAL RESERVES (-)	-	71,169
1.11	STATUTORY RESERVES (-)	-	-
1.12	EXTRAORDINARY RESERVES	-	81,985
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	-
<b>II.</b>	<b>DISTRIBUTION FROM RESERVES</b>		
2.1	DISTRIBUTED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1	To Owners of Ordinary Shares	-	-
2.3.2	To Owners of Preferred Shares	-	-
2.3.3	To Preferred Shares (Preemptive Rights)	-	-
2.3.4	To Profit Sharing Bonds	-	-
2.3.5	To Holders of Profit/Loss Share Certificates	-	-
2.4	DIVIDENDS TO PERSONNEL (-)	-	-
2.5	DIVIDENDS TO THE BOARD OF DIRECTORS (-)	-	-
<b>III.</b>	<b>EARNINGS PER SHARE</b>		
3.1	TO OWNERS OF ORDINARY SHARE <sup>(4)</sup>	0.0418	0.0274
3.2	TO OWNERS OF ORDINARY SHARE (%)	104	69
3.3	TO OWNERS OF PREFERRED SHARES <sup>(4)</sup>	-	-
3.4	TO OWNERS OF PREFERRED SHARES (%)	-	-
<b>IV.</b>	<b>DIVIDEND PER SHARE</b>		
4.1	TO OWNERS OF ORDINARY SHARES <sup>(4)</sup>	-	0.0069
4.2	TO OWNERS OF ORDINARY SHARES (%)	-	17
4.3	TO OWNERS OF PREFERRED SHARES <sup>(4)</sup>	-	0.0020
4.4	TO OWNERS OF PREFERRED SHARES (%)	-	20

<sup>(1)</sup> The decision for dividend payment is made at the Annual General Meeting. Annual General Meeting has not been held as of the reporting date.

<sup>(2)</sup> TL 114,000 which is added distribution tax base for 2015 provision provided for employee dividend distribution in 2015 within the scope of "TAS 19-Employee Benefits", has been added to prior period net profit/loss. TP 9,547 prior year's profit has been added to prior period's "net profit for the period" for the same year.

<sup>(3)</sup> The amount of current year is Deferred Tax Expense, the amount of prior period is Deferred Tax Income.

<sup>(4)</sup> Expressed in full TL

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## SECTION THREE: EXPLANATIONS ON ACCOUNTING POLICIES

## I. Basis of Presentation

## 1. Basis of Presentation

The consolidated financial statements, related notes and explanations in this report are prepared in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations.

The accounting policies are consistent with the financial statements in prior period, except the changes in the current period on accounting policies for real estates. Accounting policies applied and valuation methods used in the preparation of the consolidated financial statements are expressed in detail below.

## 2. Additional paragraph for convenience translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying consolidated financial statements are to be distributed, and International Financial Reporting Standards ("IFRS"), may have significant influence on the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

## II. Strategy for Use of Financial Instruments and on Foreign Currency Transactions

## 1. The Group's Strategy on Financial Instruments

The Group's main financial activities comprise a wide range of activities such as banking, insurance and reinsurance services, brokerage services, investment consulting, real estate portfolio and asset management, financial lease, factoring services, portfolio and asset management. The liabilities on the Group's balance sheet are mainly composed of relatively short-term deposits, parallel to general liability structure of the banking system, which is its main field of other activity. As for the non-deposit liabilities, funds are collected through medium and short-term instruments. The liquidity risk that may arise from this liability structure can be easily controlled through deposit continuity, as well as widespread network of the correspondent banks, market maker status (The Parent Bank is one of the market maker banks) and by the use of liquidity facilities of the Central Bank of the Republic of Turkey (CBRT). The liquidity of the Group and the banking system can be easily monitored. On the other hand, foreign currency liquidity requirements are met by the money market operations and currency swaps.

Most of the funds collected bear fixed-interest, and by monitoring the developments in the sector fixed and floating rate placements are made according to the yields of alternative investment instruments.

The fixed rate Eurobond issued and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Group enter into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognized under the statement of profit/loss. At the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortized and recognized in income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

By taking into account the global and national economic outlook, market conditions, current and potential credit customers' expectations and tendencies, and risks such as; interest rate, liquidity and currency risks, the Group's placements are focused on high yielding and low risk assets and safety principle has always been the top priority. Generally a pricing policy aiming at high return is implemented in the long-term placements of the Group, and attention is paid to the maximum use of non-interest income generation opportunities. In management of Financial Statements, this strategy is parallel to and acts within legal limits.

The primary objectives related to balance sheet components are set by the long-term plans shaped along with budgeting; and the Parent Bank takes the required positions against the short-term currency, interest rates and price fluctuations in accordance with these plans and the course of the market conditions.

Foreign currency, interest rate and price fluctuations in the markets are monitored instantaneously. While taking positions, in addition to the legal limits, the Parent Bank's own transaction and control limits are also effectively monitored in order to avoid limit overrides.

The Parent Bank's asset-liability management is executed by the Asset-Liability Management Committee, within the risk limits determined by the Board of Directors, in order to keep the liquidity risk, interest rate risk, currency risk and credit risk within certain limits depending on the equity adequacy and to maximize profitability.

## 2. Foreign Currency Transactions

The financial statements of the Parent Bank's branches and financial institutions that have been established abroad are prepared in functional currency prevailing in the economic environment that they operate in; and when they are consolidated, they are presented in TL, which are the functional currency of the Parent Bank and also the currency used in presentation of the financial statements.

Foreign currency monetary assets and liabilities on the balance sheet are converted into Turkish Lira by using the prevailing exchange rates at the balance sheet date. Non-monetary items in foreign currencies carried at fair value are converted into Turkish Lira by the rates at the date of which the fair value is determined. Exchange rate differences arising from the conversions of monetary foreign currency items and the collections of and payments in foreign currency transactions are reflected to the income statement. In accordance with TAS 21 "Effects of Changes In Foreign Exchange Rates", net investments in non-domestic companies are considered as non-monetary items, measured on the basis of historical cost and converted into Turkish Currency at the currency rates at the transaction date, and also in accordance with TAS 29 "Financial Reporting In Hyperinflationary Economics", the inflation adjusted value is calculated by using the inflation indices prevailing between the date of transaction and final date that the inflation adjustment is applied for the costs incurred before 31 December 2004, and it is accounted by allocating provision amounts for any permanent impairment losses.

While the Parent Bank and Türkiye Sınai Kalkınma Bankası A.Ş., one of the consolidated subsidiaries, use their own foreign currency exchange rates for their foreign currency transactions, other institutions residing domestically use the CBRT rates for their foreign currency transactions.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

Assets and liabilities of the foreign branches of the Parent Bank and financial institutions that have been established abroad are converted into TL by using the prevailing exchange rates at the balance sheet date. Income and expenses are converted by at exchange rates at the dates of the transactions. Incomes and expenses of foreign financial institutions are converted into TL at average foreign currency rates as long as there is not a significant fluctuation in currency rates during the period. The exchange rate differences arising from the conversion are recognized in the "Other Profit Reserves" account under the shareholders' equity.

#### III. Information on the Consolidated Companies

##### 1. Basis of Consolidation:

The consolidated financial statements have been prepared in accordance with the procedures and principles listed in the "Communiqué Related to Regulation on the Preparation of the Consolidated Financial Statements of Banks" published in the Official Gazette numbered 26340 dated 8 November 2006.

##### a. Subsidiaries:

A subsidiary is an entity that is controlled by the Parent.

Control is the power of the Parent Bank to appoint or remove from office the decision-taking majority of members of board of directors through direct or indirect possession of the majority of a legal person's capital irrespective of the requirement of owning minimum fifty-one per cent of its capital; or by having control over the majority of the voting right as a consequence of holding privileged shares or of agreements with other shareholders although not owning the majority of capital.

As per the "Communiqué Related to the Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette numbered 26340 dated 8 November 2006, as at the current period, the Parent Bank has no subsidiaries, qualified as credit institutions or financial institutions, excluded from consolidation. Detailed information about the consolidated subsidiaries is given in Section Five, Note I.h.3.

Under full consolidation method, the assets, liabilities, income and expenses and off-balance sheet items of subsidiaries are combined with the equivalent items of the Parent Bank on a line-by-line basis. The book value of the Parent Bank's investment in each of the subsidiaries and the Group's portion of equity of each subsidiary are eliminated. All significant transactions and balances between the Parent Bank and its consolidated subsidiaries are eliminated reciprocally. Non-controlling interests in the net income and in the equity of consolidated subsidiaries are calculated separately from the Group's net income and the Group's shareholders' equity. Non-controlling interests are presented separately in the balance sheet and in the income statement.

Accounting policies used by the subsidiaries, that are included in the consolidated financial statements, are not different than the Parent Bank's.

IFRS 3 "Business Combinations" standard prescribes no depreciation to be recognized for goodwill arising on the acquisitions on or after 31 March 2004, realizing positive goodwill as an asset and application of impairment analysis as of balance sheet dates. In the same standard, it is also required from that date onwards that the negative goodwill, which occurs in the case of the Group's interest in the fair value of acquired identifiable assets and liabilities exceeds the acquisition cost to be recognized in profit or loss.

Details of positive goodwill arising from Bank's investments to its subsidiaries in investment basis are as follows:

Name of the Investment	Amount of the Positive Consolidation Goodwill
İş Finansal Kiralama A.Ş.	611
Türkiye Sınai Kalkınma Bankası A.Ş.	4,792
Anadolu Anonim Türk Sigorta Şirketi	1,767
JSC İşbank	28,804
<b>Total</b>	<b>35,974</b>

Due to the Bank does not have any subsidiaries, the special purpose entities established within the Bank's securitization loan transactions are included to the financial statements.

##### b. Associates:

An associate is a domestic or foreign entity which the Parent Bank participates in its capital and over which it has a significant influence but no control.

Significant influence is the power to participate in the financial and operating policy of the investee. If the Parent Bank holds qualified shares in the associate, it is presumed that the Parent Bank has significant influence unless otherwise demonstrated. A substantial or majority ownership by another investor does not necessarily preclude the Parent Bank from having significant influence.

Qualified share is the share that directly or indirectly constitutes ten or more than ten percent of an entity's capital or voting rights and irrespective of this requirement, possession of privileged shares giving right to appoint members of board of directors.

Equity accounting method is an evaluation method of associates by which the Parent Bank's share in the associates' equity is compared with the book value of the associate accounted in the Parent Bank's balance sheet. The difference is recognized in profit or loss in the consolidated income statement.

Accounting policies of Arap Türk Bankası A.Ş., the only associate that is accounted in the consolidated financial statements by using the equity accounting method are not different than the Parent Bank's. Detailed information about Arap Türk Bankası A.Ş. is given in Section Five Note I.g.2.

##### c. Jointly controlled entities:

A joint venture is an agreement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The Bank does not have any jointly controlled entities which are financial institutions in nature and to be consolidated in the financial statements by the equity method.

**d. Principles applied during share transfer, merger and acquisition:** None.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### 2. Presentation of subsidiaries, associates and jointly controlled entities which are not credit or financial institutions in consolidated financial statements:

Associates, subsidiaries and jointly controlled entities of the Bank's and its consolidated subsidiaries' which are operated in the real sector are accounted in accordance with TAS 27 - Consolidated and Separate Financial Statements and TAS 28 - Investments in Associates and Joint Ventures". Subsidiaries, associates and jointly controlled entities are categorized into two groups; equity shares which are traded in an active market (stock market) and equity shares which are not traded in an active market. Equity shares which are traded in an active market (quoted) are recognized with respect to their market values. Unquoted equity shares are recognized in historical cost basis less impairment, if any.

#### IV. Forward, Option Contracts and Derivative Instruments

Derivative transactions of the Group consist of foreign currency and interest rate swaps, forwards, foreign currency options and interest rate options. The Group has no derivative instruments decomposed from the main contract.

The derivative instruments including both economic hedges and derivatives specified as hedging items are classified as either "derivatives held for trading" or "derivatives held for hedging" as per the Turkish Accounting Standard ("TAS 39") "Financial Instruments: Recognition and Measurement".

Derivative instruments held for trading are carried at their fair values at the contract dates and the receivables and payables arising from these transactions are followed under off-balance sheet accounts. Derivative transactions are valued at their fair values in the reporting periods following their recording and the valuation differences are shown under the accounts, "Derivative Financial Assets Held for Trading" and "Derivative Financial Liabilities Held for Trading", depending on the difference being positive or negative. Although some derivative transactions are qualified as economical hedging items, they do not meet all the definition requirements of hedge accounting items. Therefore, under the Turkish Accounting Standard No: 39 "Financial Instruments: Recognition and Measurement" (TAS 39), these derivative instruments are recognized as held for trading. The valuation differences arising from the valuation of derivative transactions are associated with the income statement.

Derivatives are designated as "derivative financial instruments held for hedging" if all necessary conditions are met to evaluate those as financial instruments for hedge accounting. Those derivatives are recognized initially at fair value; and subsequent to initial recognition, derivatives are measured at fair value, and notional amounts are recognized in off-balance sheet. Changes in fair value are recognized in "derivative financial assets held for hedging" and "derivative financial liabilities held for hedging" and therein recognized in profit or loss.

On off-balance sheet items table, options which generated assets for the Parent Bank are presented under "call options" line and which generated liabilities are presented under "put options" line.

#### V. Interest Income and Expenses

Interest income and expenses are recognized on an accrual basis using the effective interest method (the rate that equals the future cash flows of a financial asset or liability to its present net book value) in conformity with TAS 39 "Financial Instruments: Recognition and Measurement".

In accordance with the related legislation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recognized as an interest income only when they are collected.

#### VI. Fees and Commission Income and Expenses

Fees and commission income and expenses are recognized either on accrual basis or by using the effective interest method. Income earned in return for services rendered contractually or due to operations like sale or purchase of assets on behalf of a third party real person or corporate body are recognized in income accounts in the period of collection.

#### VII. Financial Assets

Financial assets are comprised of cash, contractual rights to obtain cash or another financial asset from or to exchange financial instruments with the counterparty, or the capital instrument transactions of the counterparty. According to the Parent Bank management's purpose of holding, the financial assets are classified into four groups as "Financial Assets at Fair Value through Profit And Loss", "Financial Assets Available for Sale", "Held to Maturity Investments" and "Loans and Receivables".

##### 1. Cash and Banks

Cash consists of cash in vault, foreign currency cash, and money in transit, cheques purchased and precious metals. Foreign currency cash and banks are shown in the balance sheet by their amounts converted into TL at the foreign exchange rate on the balance sheet date.

##### 2. Marketable Securities

###### a. Financial Assets at Fair Value through Profit And Loss

###### a.1. Financial Assets Held for Trading

Financial assets held for trading are those acquired for the purpose of generating profit from short term market fluctuations in prices or similar elements, or securities which are part of a portfolio set up to realize short term profit regardless of the purpose of acquisition.

Financial assets held for trading is presented in the balance sheet with their fair values are subject to valuation at fair values after the initial recognition. While measuring the fair values of financial assets held for trading, market prices, quoted prices, prices set by CBRT and published in official gazette and internal pricing models are used within the context of related accounting standards.

Any gains or losses resulting from such valuation are recognized in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are recognized under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is recognized in the "Gains on Securities Trading" account. If the fair value is less than the amortized cost, the negative difference is recognized under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### a.2. Financial Assets at Fair Value through Profit and Loss

Financial assets at fair value through profit and loss represent the financial assets at fair value through profit and loss at the initial recognition and those are not obtained for trading purposes. Recognition of fair value differences of those assets are similar to the financial asset held for trading.

#### b. Financial Assets Available for Sale and Held to Maturity Investments

##### b.1. Financial Assets Available for Sale

Financial assets available for sale represent non-derivative financial assets other than bank loans and receivables, held to maturity investments and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based on the fair value including transaction costs. The amount arising from the difference between cost and amortized value is recognized through income statement by using the internal rate of return. While measuring the fair values of available for sale securities, market prices, quoted prices, prices set by CBRT and published in official gazette and internal pricing models are used within the context of related accounting standards. Unrealized gains and losses arising from changes in fair value of the financial assets available for sale are not recognized in the income statement, they are recognized in the "Marketable Securities Revaluation Fund" until the disposal, sale, redemption or incurring loss of those assets. Fair value differences accounted under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

##### b.2. Held to Maturity Investments

Held to maturity investments are the investments, for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including the funding ability, and for which there are fixed or determinable payments with fixed maturity; and which are recognized at fair value at initial recognition. Held to maturity investments with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the internal rate of return method less provision for any impairment, if any. Interest income from held to maturity investments are recognized in the income statement as an interest income.

There are no financial assets that are classified by the Group as held to maturity investments; however, they cannot be classified under this classification for two years for not satisfying the requirements of the related classification.

#### 3. Loans and Receivables

Loans and receivables represent unquoted financial assets in an active market that provide money, goods or services to the debtor with fixed or determinable payments.

Loans and receivables are initially recognized with their fair values including settlement costs and carried at their amortized costs calculated using the internal rate of return at the subsequent recognition.

Retail and commercial loans that are followed under cash loans are accounted at original maturities, based on their contents.

Foreign currency indexed consumer and corporate loans are followed at TL accounts after converting into TL by using the opening exchange rates. At the subsequent periods, increases and decreases in the loan capital are recognized under the foreign currency income and expense accounts in the income statement depending on foreign currency rates being higher or lower than opening date rates. Repayments are calculated using the exchange rates at the repayment dates and exchange differences are recognized under the foreign currency income and expense accounts in the income statement.

#### VIII. Impairment of Financial Assets

At each balance sheet date, the Group companies evaluate the carrying amount of its financial assets or a group of its financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, the Group determines the related impairment amount.

A financial asset or a group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more than one event ("loss event") subsequent to the initial recognition of that asset has an effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of their high probability of incurrance, future expected losses are not recognized.

Impairment losses attributable to the held to maturity investments are measured as the difference between the present values of estimated future cash flows discounted using the original interest rate of financial asset and the book value of asset. The related difference is recognized as a loss and it decreases the book value of the financial asset. At subsequent periods, if the impairment loss amount decreases, impairment loss recognized is reversed.

When an impairment occurs in the fair values of the "financial assets available for sale" of which value decreases and increases are recognized in equity, the accumulated profit/loss that had been recognized directly in equity is transferred from equity to period profit or loss. If the fair value of the related asset increases in a subsequent period, the amount of increases are recognized in equity.

Loans are classified and followed in line with the provisions of the "Regulation on Procedures And Principles For Determination of Qualifications of Loans And Other Receivables By Banks And Provisions To Be Set Aside", published on the Official Gazette numbered 26333 dated 1 November 2006. Within the scope of the relevant legislation the Parent Bank was allocating specific provision for the non-performing loans and other receivables, the Parent Bank calculated to allocate specific provisions in accordance with the minimum provision rates mentioned. Among the activities of the Group, for the receivables from the financial leasing and factoring companies provisions are set aside in accordance with the communiques "Financial Leasing, Factoring and Financing Companies and Financial Statements of the Regulation on Accounting Policy" published on the Official Gazette numbered 28861 dated 24 December 2013 and for receivables acquired through the asset management activities in "Regulation on the Establishment and Operations of Asset Management Companies" published on the Official Gazette numbered 26333 dated 1 November 2006 under the special provision are made. Specific provisions are reflected in the income statement. Provisions released in the same year, "Provision Expense" account are credited in the past years, the remaining part of the provisions in the "Other Operating Income" account transferred to and recognized.

Other than specific allowances, the Parent Bank and the financial institutions affiliated to the Group also provide "general allowances" for loan and other receivables classified in accordance with the abovementioned legal regulations and communiques.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016**IX. Offsetting Financial Instruments**

A financial asset and a financial liability shall be offset and the net amount shall be presented in the balance sheet only when a party currently has a legally enforceable right to set off the recognized amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**X. Sale and Repurchase Agreements and Securities Lending Transactions**

Marketable securities subject to repurchase agreements are classified under "Available for Sale Financial Assets" or "Held to Maturity Investments" in the Parent Bank's portfolio and they are valued according to the valuation principles of the related portfolios.

Funds obtained from the repurchase agreements are recognized under "Funds from Repurchase Transactions" account in liabilities. For the difference between the sale and repurchase prices determined by the repo agreements for the period; expense accrual is calculated using the internal rate of return method.

Reverse repo transactions are recognized under the "Receivables from Reverse Repurchase Transactions" account. For the difference between the purchase and resale prices determined by the reverse Repurchase agreements for the period; income accrual is calculated using the internal rate of return method.

**XI. Non-current Assets Held for Sale and Discontinued Operations and Related Liabilities**

Assets that meet the criteria to be classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell and presented in the financial statements separately. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal group), and an active programme to complete the plan should be initiated to locate a customer. Also, the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Events or circumstances may extend the completion of the sale more than one year. Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entity remains committed to its plan to sell the asset (or disposal group).

A discontinued operation is a component of a bank that either has been disposed of, or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement. There are no discontinued operation on Parent Bank and consolidated associates.

**XII. Goodwill and Other Intangible Assets**

The Group's intangible assets consist of consolidation goodwill and software programs.

Goodwill arising from the acquisition of a subsidiary represents the excess of cost of acquisition over the fair value of Group's share of the identifiable assets, liabilities, or contingent liabilities of the acquired subsidiary at the date of acquisition of the control. Goodwill is recognized as an asset at cost and then carried at cost less accumulated impairment losses. In impairment-loss test, goodwill is allocated between the Group's every cash-generating unit that is expected to benefit from the synergies of the business combination. To control whether there is an impairment loss in the cash-generating units that goodwill is allocated, impairment-loss test is applied every year or more often if there is indications of impairment loss. In the cases, recoverable amount of cash-generating unit is smaller than its book value; impairment loss is firstly used in reduction of book value of the cash-generating unit, and then the other assets proportionally. Goodwill which is allocated for the impairment losses could not be reversed. When a subsidiary is to be sold, related goodwill amount is combined with the profit/loss relating to this disposal. Positive goodwill arising from the Group's investments in its subsidiaries is recognized in Intangible Assets. Explanations on consolidation goodwill are given in Section Three, Note III.1.a.

As for other intangible assets, the purchased items are presented with their acquisition costs less the accumulated amortization and impairment provisions. In case there is an indication of impairment, the recoverable amount of the related intangible asset is estimated within the framework of TAS 36 "Impairment of Assets" and impairment provision is set aside in case the recoverable amount is below its acquisition cost.

Such assets are amortized by the straight-line method considering their estimated useful life. The amortization method and period are periodically reviewed at the end of each year.

**XIII. Tangible Assets**

Tangible assets purchased before 1 January 2005, are presented in the financial statements at their inflation adjusted acquisition costs as at 31 December 2004, and the items purchased in the subsequent periods are presented at acquisition costs less accumulated amortization and impairment provisions. The prior year, the Bank, has been changed its accounting policies from historical cost method to revaluation method for the real estate properties which are held for own use in accordance with "TAS 16-Property, Plant and Equipment". The positive difference between the net book value of real estate property values and the expertise values which are determined by the certified valuation companies are recorded under the shareholders' equity.

In case there is an indication of impairment, the recoverable amount of the related intangible asset is estimated within the framework of "TAS 36 - Impairment of Assets" and impairment provision is set aside in case the recoverable amount is below its acquisition cost.

Assets under construction for leasing or for administrative purposes or for other objectives, which are not presently determined, are amortized when they are ready for use.

The acquisition costs of tangible assets are amortized by the straight-line method, according to their estimated useful lives. The estimated useful life, residual amount and the method of amortization are reviewed every year for the possible effects of the changes that occur in the estimates and if there is any change in the estimates, they are recognized prospectively.

Assets held under finance leases are depreciated over the expected useful life or lease term whichever is the shorter for the specified period.

Leasehold improvements are amortized in equal amounts considering their useful life. However, in any case the useful life cannot exceed the leasing term. When the lease period is not certain or longer than 5 years, the amortization period is recognized as 5 years.

The difference between the sales proceeds arising from the disposal of tangible assets or the inactivation of a tangible asset and the book value of the tangible asset are recognized in the income statement.

Regular maintenance and repair costs incurred for tangible assets are recognized as expense.

There are no restrictions such as pledges, mortgages on tangible assets.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

The depreciation rates used in amortization of tangible assets and their estimated useful lives are as follows:

	Estimated Economic Life (Year)	Depreciation Rate
Buildings	4-50	2% - 25%
Safe Boxes	2-50	2% - 50%
Other Movables	2-25	4% - 50%
Leased Assets	4-15	6.66% - 25%

#### XIV. Investment Property

Investment properties are kind of properties held by the Group to earn rent income or benefit from valuation surplus. The investment properties of the Group are measured at their fair values in the consolidated financial statements in accordance with "TAS 40 Investment Property". Any gains or losses arising from changes in fair values of investment properties are recognised in profit or loss accounts for the related period.

#### XV. Leasing Transactions

Assets acquired under financial leases are carried at the lower of their fair values or amortized value of the lease payments. Leasing payables are recognized as liabilities in the balance sheet while the interest payable portion of the payables is recognized as a deferred amount of interest. Finance lease payments are separated as financial expense and principal amount payment, which provides a decrease in finance lease liability, thus helps a fixed rate interest on the remaining principal amount of the debt to be calculated. Within the context of the Group's general borrowing policy, financial expenses are recognized in the income statement. Assets held under financial leases are recognized under the property, plant and equipment (movable properties) account and are depreciated by using the straight line method.

There is one company which exclusively does finance leases (İş Finansal Kiralama A.Ş.) and one bank (Türkiye Sınai Kalkınma Bankası A.Ş.) which operates finance lease activities as per provisional article No 4 of the Banking Law No 5411. Finance lease activities are operated according to the "Law on Financial Leasing, Factoring and Financing" No 6361.

In cases when the Group is the "lessor", finance lease receivables are recognized by their fair values on the first entry date and in the reporting periods after the first entry date they are carried at amortized cost by using the effective interest rate method. Interest income on finance lease is allocated to the accounting periods in order to reflect a fixed term interest from the investments that are subject to leasing.

Operational lease transactions are recognized in line with the related agreement on an accrual basis.

#### XVI. Insurance Technical Income and Expense

In insurance companies premium income is obtained subsequent to the share of reinsurers in policy income is diminished.

Claims are recorded in expense on accrual basis. Outstanding loss provisions are recognized for the claims reported but not paid yet and for the claims that incurred but not reported. Reinsurers' share of claims paid and outstanding loss are offset in these provisions.

#### XVII. Insurance Technical Reserves

The Group's insurance subsidiaries adopted TFRS 4, Insurance Contracts ("TFRS 4"). TFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts. Contracts with significant insurance risk are considered insurance contracts. Insurance risk is defined as risk, other than financial risk, transferred from the holder of a contract to the issuer. TFRS 4 permits a company to continue with its previously adopted accounting policies with regard to recognition and measurement of insurance contracts. Only in case of presentation of more reliable figures a change in accounting policy shall be carried out. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with TAS 39 "Turkish Accounting Standard for Financial Instruments: Recognition and Measurement".

Insurance technical provisions on the consolidated financial statements consist of, reserve for unearned premiums, reserve for unexpired risk, and provision for outstanding claims and mathematical provisions.

Within the framework of the current insurance regulation, reserves accounted by insurance companies for unearned premium claims, unexpired risk reserves, outstanding claims and life-mathematical reserves are presented in the consolidated financial statements.

The reserve for unearned premiums consists of the gross overlapping portion of accrued premiums for insurance contracts that are in effect to the subsequent period or periods of balance sheet date on a daily basis without a commission or any other discount.

In case the expected loss premium ratio is over 95%, the unexpired risk reserves are recognized for the main branches specified by the Undersecretariat of Treasury. For each main branch, the amount found by multiplying the ratio exceeding 95% by the net unearned premium provision, is added to the unearned premium provision of that main branch.

Reserve for outstanding claim is recognized for the accrued claims which are not paid in the current period or in the prior periods or for the claims realized with the expected costs but not reported.

Mathematical reserve is recognized on actuarial bases in order to meet the requirements of policyholders and beneficiaries for life, health and personal accident insurance contracts for a period longer than a year.

On the other hand, actuarial chain ladder method is used to estimate the reserve amount to be set aside in the current period by looking at the data of the past materialized losses. If the reserve amount found as a result of this method exceeds the amount of reserve for the amount of uncertain indemnity, additional reserve must be set aside for the difference.

Reinsurance companies recognize for the outstanding claims that is declared by the companies, accrued and determined on account.

Insurance companies of the Group cede premium and risks in the normal course of business in order to limit the potential for losses arising from risks accepted. Insurance premiums ceded to reinsurers on contracts that are deemed to transfer significant insurance risk are recognized as an expense in a manner that is consistent with the recognition of insurance premium revenue arising from the underlying risks being protected.

Costs which vary and are directly associated with the acquisition of insurance and reinsurance contracts including brokerage, commissions, underwriting expenses and other acquisition costs are deferred and amortized over the period of contract, consistent with the earning of premium.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### XVIII. Provisions and Contingent Liabilities

As of the end of the reporting period, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists, the entity recognizes a provision in the financial statements. As of the end of the reporting period where it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

In the financial statements, a provision is made for an existing commitment resulted from past events if it is probable that the commitment will be settled and a reliable estimate can be made of the amount of the obligation.

Provisions are calculated based on the best estimates of management on the expenses to incur as of the balance sheet date to fulfill the liability by considering the risks and uncertainties related to the liability.

In case the provision is measured by using the estimated cash flows required to fulfill the existing liability, the book value of the related liability is equal to the present value of the related cash flows.

If the amount is not reliably estimated and there is no probability of cash outflow from the Group to settle the liability, the related liability is considered as "contingent" and disclosed in the notes to the financial statements.

#### XIX. Contingent Assets

The contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Parent Bank and the Group. Since showing the contingent assets in the financial statements may result in the accounting of an income, which will never be generated, the related assets are not included in the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

#### XX. Liabilities Regarding Employee Benefits

##### 1. Severance Indemnities and Short-Term Employee Benefits

According to the related regulation and the collective bargaining agreements, the Parent Bank and consolidated Group companies (excluding the subsidiaries residing outside Turkey) are obliged to pay termination benefits for employees who retire, die, quit for their military service obligations, who have been dismissed as defined in the related regulation or (for the female employees) who have voluntarily quit within one year after the date of their marriage. Within the scope of TAS 19 "Employee Benefits", the Parent Bank allocates seniority pay provisions for employee benefits by estimating the present value of the probable future liabilities. According to TAS 19, all actuarial gains and losses occurred are recognized under equity. As the legislations of the countries in which the Parent Bank's non-resident subsidiaries operate do not require retirement pay provision, no provision liability has been recognized for the related companies. In addition, provision is also allocated for the unused paid vacation.

##### 2. Retirement Benefit Obligations

İşbank Pension Fund (Türkiye İş Bankası A.Ş. Emekli Sandığı Vakfı), of which each employee of the Parent Bank is a member, has been established according to the provisional Article 20 of the Social Security Act numbered 506. As per provisional article numbered 23 of the Banking Law numbered 5411, it is ruled that Bank pension funds, which were established within the framework of Social Security Institution Law, will be transferred to the Social Security Institution, within 3 years after the publication of such law. Methods and principles related to transfer have been determined as per the Cabinet decision dated 30 November 2006 numbered 2006/11345. However, the related article of the act has been cancelled upon the President's application dated 2 November 2005, by the Supreme Court's decision dated 22 March 2007, Nr.E.2005/39, K.2007/33, which was published on the Official Gazette dated 31 March 2007 and numbered 26479 and the execution decision were ceased as of the issuance date of the related decision.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Turkish Grand National Assembly started to work on establishing new legal regulations, and after it was approved at the General Assembly of the TGNA, the Law numbered 5754 "Emending Social Security and General Health Insurance Act and Certain Laws and Decree Laws", which was published on the Official Gazette dated 8 May 2008 and numbered 26870, came into effect. The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three-year transfer period can be prolonged for maximum 2 years by the Cabinet decision.

However related transfer period has been prolonged for 2 years by the Cabinet decision dated. 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law "Emending Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years after that related transfer period has been prolonged for one more year by the Cabinet decision dated 08 April 2013, which was published on the Official Gazette dated 3 May 2013 and numbered 28636 also this period has revalidated one more year by the Cabinet decision dated 24 February 2014, which was published on the Official Gazette dated 30 April 2014 and numbered 28987. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20<sup>th</sup> provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the "Occupational Health and Safety Law and Other Laws and Decree Laws" published in the Official Gazette dated 23 April 2015 and numbered 29335.

On the other hand, the application made on 19 June 2008 by the Republican People's Party to the Constitutional Court for the annulment and motion for stay of some articles, including the first paragraph of the provisional article 20 of the Law, which covers provisions on transfers, was rejected in accordance with the decision taken at the meeting of the afore-mentioned court on 30 March 2011.

The above mentioned law also states that;

- Through a commission constituted by the attendance of one representative separately from the Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, Banking Regulation and Supervision Agency, Savings Deposit Insurance Fund, one from each pension fund, and one representative from the organization employing pension fund contributors, related to the transferred persons, the cash value of the liabilities of the pension fund as of the transfer date will be calculated by considering their income and expenses in terms of the lines of insurance within the context of the related Law, and technical interest rate of 9.8% will be used in the actuarial calculation of the value in cash
- And that after the transfer of the pension fund contributors, the ones who receive salaries or income from these funds and their rightful beneficiaries to the Social Security Institution, these persons' uncovered social rights and payments, despite being included in the trust indenture that they are subject to, will be continued to be covered by the pension funds and the employers of pension fund contributors.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

In line with the new law, the Bank had an actuarial valuation as of 31 December 2016. The amount of actuarial and technical deficit which was measured according to aforementioned report, reflected to the year-end financial statements. The actuarial assumptions used in the related actuarial report are given in Section Five Note II-i. Besides the Parent Bank, Milli Reasürans T.A.Ş. and Türkiye Sınai Kalkınma Bankası A.Ş. also had actuarial audits as of 31 December 2016 for their pension funds. According to actuarial report, the amount of actuarial and technical deficit which was measured according to this report and reflected to the year-end financial statements, was kept in the financial statements for the current period from Milli Reasürans T.A.Ş. According to actuarial report of Türkiye Sınai Kalkınma Bankası, there is not any additional operational or actuarial liability from Türkiye Sınai Kalkınma Bankası to the Group at 31 December 2016.

Up to now, there has not been any deficit in İşbank Members' Supplementary Pension Fund, which has been founded by the Bank as per the provisions of the Turkish Commercial Code and Turkish Civil Code and which provides subsequent retirement benefits; and the Parent Bank has made no payment for this purpose. It is believed that the assets of this institution are capable of covering its total obligations, and that it shall not constitute an additional liability for the Parent Bank. Those are also valid for the supplementary pension funds of the employees of Anadolu Anonim Türk Sigorta Şirketi, Milli Reasürans T.A.Ş. and Türkiye Sınai Kalkınma Bankası A.Ş. which are among the other financial institutions of the Group.

#### XXI. Taxation

##### 1. Corporate Tax:

Turkish tax legislation does not permit a parent company to file a consolidated tax return through its consolidated financial statements. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

In accordance with the Article 32 of the Corporate Tax Law No: 5520, the corporate tax rate is calculated at the rate of 20%. As per the related law, temporary tax is calculated and paid quarterly in line with the principles of the Income Tax Law and at the corporate tax rate. The temporary tax payments are deducted from the current period's corporate tax. The 4<sup>th</sup> temporary provisional tax for the end of the year 2016 will be paid in February 2017 and will be offset with the current period's corporate tax.

Tax expense is the sum of the current tax expense and deferred tax charge. Current period tax liability is calculated over taxable profit. Taxable profit is different from the profit in the income statement since taxable income or deductible expenses for the following years and non-taxable and non-deductible items are excluded. Current taxes are shown in the financial tables by offsetting with prepaid taxes.

Within the framework of the Corporate Tax Law numbered 5520, 75% of the gains on the sale of the participation shares, which were held in the assets for a minimum of 2 whole years and 75% of the gains on the sale of immovable are exempt from tax provided that they are added to the capital as set forth by the Law or that they are kept in a special fund under liabilities for a period of 5 years.

##### 2. Deferred Tax:

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. General provisions that are allocated for possible future risks are included in the tax base and they are not subject to deferred tax calculation. No tax assets or liabilities are recognized for the temporary timing difference that affects neither the taxable profit nor the accounting profit and that arises from the initial recognition in the balance sheet, of assets and liabilities, other than the goodwill and mergers.

The carrying values of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at enacted tax rates prevailing in the period when the assets are realized or liabilities are settled, and the tax is recognized as income or expense in the income statement. Nonetheless, if the deferred tax is related to assets directly associated with the equity in the same or different period, it is directly recognized in the equity accounts.

Deferred tax assets and liabilities of banks and consolidated companies are shown by way of offsetting in separate financial statements of each entities. In the consolidated financial statements, on the other hand, the deferred tax assets and liabilities that come from the companies as offset are separately shown in the assets and liabilities.

##### 3. Tax Practices in the Countries that Foreign Branches Operate:

###### Turkish Republic of Northern Cyprus (TRNC)

According to the tax regulations in the Turkish Republic of Northern Cyprus, corporate gains are separately subject to 10% corporate tax and 15% income tax. The tax bases for companies are determined by adding the expenses that cannot be deducted according to TRNC regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. Income tax is paid in June, and corporate tax payment is made in two installments, in May and in October. On the other hand, withholding tax is paid in TRNC over interest income and similar gains of the companies.

###### England

Corporate earnings are subject to 20% corporate tax in England. The relevant rate is applied to the tax base that is determined by adding the expenses that cannot be deducted due to the regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. On the other hand, if the a specific balance within the scope of the regulations' tax base of the relevant year, is higher than the amount found the corporate tax payments are made as temporary tax payments in four installments in July and October of the relevant year and in January and April of the following year. Relevant temporary tax payments are deducted from the corporate tax that is finalized until the end of January of the second year following the relevant year. On the other hand, if the tax base is under the determined balance, corporate tax is paid by the end of September following the year that the profit is made.

###### Bahrain

Banks in Bahrain are not subject to tax according to the regulations of the country.

###### The Republic of Iraq (Iraq)

The corporate tax is 15% in Iraq. In central government-dependent cities tax is paid in the following year to the related tax administration by the end of June, at the latest and in the cities under the administration of Northern Iraq tax is paid in the following year to the related tax administration by the end of April, at latest and the financial statements must be presented and accrued taxes must be paid. On the other hand, Tax Administrations Regional Government in Northern Iraq can recognize the fixed tax except signified rates.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### Kosovo

Corporate earnings are subject to income tax rate of 10% according to the Kosovo legislation. This ratio is applied to the tax base that will be calculated as a result of the implementation of exemptions, deductions, addition of disallowable expenses, to the corporate income and that are calculated in accordance with the tax laws. Tax has to be paid in advance until April, July, October and January of the current year and the 15<sup>th</sup> day of January of the following year by four installments. If those prepaid taxes are lower than the final corporate tax, the difference is paid until the end of March of the following year, in case of a claim made by company, if it is higher, then the difference is returned to the institution by the tax authorities after the inspection conducted by those institution .

#### Georgia

Corporate earnings are subject to income tax rate of 15% according to the Georgian legislation. This ratio is applied to the tax base that will be calculated as a result of the implementation of exemptions, deductions, addition of disallowable expenses, to the income of corporations and that are calculated in accordance with the tax laws. In addition, in accordance with the legislation of Georgia, each year during May, July, September and December the amount of tax, that calculated according to the previous year income tax, is paid to the tax office by four equal installments of the probable income that is likely to be obtained the current year. If those prepaid taxes are lower than the final corporate tax, the difference is paid until the beginning of April of the following year, if it is higher, then the difference is returned to the institution by the tax authorities.

#### Germany

According to the tax regulations in Germany, corporate gains are subject to 15% corporate tax. In addition to this, a solidarity tax of 5.5% is calculated over this corporate tax. The tax bases for corporate are determined by adding the expenses that cannot be deducted according to Germany regulations, to interest, commissions and other operating gains and by subtracting exemptions and deductions from these. The corporate tax payments are made as temporary tax payments in four installments and are deducted from the corporate tax that is finalized at the end of the current year.

#### Russia

According to the Russian regulations, corporate gains are subject to 20% corporate tax. The corporate tax base is determined on accrual basis and it is measured by adding the non-deductible expenses to the corporate income gained during the period. Companies in Russia make quarterly tax returns and make provisional tax payment by offsetting the advance taxes paid during the period. Final taxation period for corporate tax is one year and the corporate tax is paid until 28 March by considering the provisional taxes paid during the year. Corporate earnings are subject to 15% corporate tax from the coupon income earned from the government bonds. Corporate tax is paid by the end of 10 weekday since the month following the end of the coupon payments.

#### United Arab Emirates

The companies operating in the free zones of Dubai are not subject to tax according to the country's legislation.

#### **4. Transfer Pricing:**

Transfer pricing is regulated through Article 13 of Corporate Tax Law titled "Transfer Pricing through Camouflage of Earnings". Detailed information for the practice regarding the subject is found in the "General Communiqué Regarding Camouflage of Earnings through Transfer Pricing".

According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against "arm's length principle", the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

#### **XXII. Borrowings**

The Parent Bank and its consolidated Group companies whenever required, generates funds from individuals and institutions residing domestically and abroad by approaching the borrowing instruments in the form of syndication, securitization, collateralized borrowing and issue of bonds/bills. Such transactions are at first carried at acquisition cost, and in the following periods they are valued at amortized cost measured by using the internal rate of return method.

In case that valuation differences in amortized cost borrowings with their associated financial instruments arise, to eliminate or reduce this inconsistency those debt instruments are recognized in fair value as per TAS 39 "Financial Instruments: Recognition and Measurement".

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### XXIII. Equity Shares and Issuance of Equity Shares

Share issuance related to costs is recognized as expenses.

Dividend income related with the equity shares are determined by the General Assembly of the Shareholders.

Weighted average number of shares outstanding is taken into account in the calculation of earnings per share. In case the number of shares increases by way of bonus issues as a result of the capital increases made by using the internal sources, the calculation of earnings per share is made by adjusting the weighted average number of shares, which were previously calculated as at the comparable periods. The adjustment means that the number of shares used in calculation is taken into consideration as if the bonus issue occurred at the beginning of the comparable period. In case such changes in the number of shares occur after the balance sheet date, but before the ratification of the financial statements to be published, the calculation of earnings per share are based on the number of new shares. The Parent Bank's earnings per share calculations taking place in the consolidated income statement are as follows.

	Current Period	Prior Period
Group's net profit	4,998,956	3,330,740
Weighted average number of shares (thousands)	112,502,250	112,502,250
Earnings per share - (in exact TL)	0.044434276	0.029605986

#### XXIV. Bank Acceptances and Bills of Guarantee

Bill guarantees and acceptances are realized simultaneously with the customer payments and they are presented as possible liabilities and commitments in the off-balance sheet accounts.

#### XXV. Government Incentives

None.

#### XXVI. Segment Reporting

Business segment is the part of an enterprise,

- which conducts business operations where it can gain revenues and make expenditures (including the revenues and expenses related to the transactions made with the other parts of the enterprise),
- whose operating results are regularly monitored by the authorities with the power to make decisions related to the operations of the enterprise in order to make decisions related to the funds to be allocated to the segment and to evaluate the performance of the segment, and
- which has its separate financial information.

Information on the Group's business segmentation and related information is explained in Section Four Note XVI.

#### XXVII. Other Disclosures

In order to be consistent with the 31 December 2016 statement of off balance sheet items, reclassifications have been made on items held in custody in the statement of off balance sheet items dated 31 December 2015.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## SECTION FOUR: INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP

## I. Explanations on Shareholders' Equity:

## 1. Explanations on Consolidated Shareholders' Equity

The Bank's consolidated capital adequacy standard ratio is 14.34% (In the current period, "Regulations on Equities of Banks" has been changed and capital adequacy ratio has been calculated as 15.10% in accordance with the former regulation as of 31 December 2015).

	Current Period	Amount as per the Regulation before 1/1/2014 <sup>2)</sup>
<b>COMMON EQUITY TIER I CAPITAL</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	6,115,938	
Share Premium	33,941	
Legal Reserves	20,686,195	
Other Comprehensive Income according to TAS	6,645,254	
Profit	5,092,395	
Net Current Period Profit	4,998,956	
Prior Period Profit	93,439	
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	(1,179)	
Minority Interest	2,146,889	1,046,310
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>40,719,433</b>	
<b>Common Equity Tier 1 capital: regulatory deductions</b>		
Valuation adjustments calculated as per the article 9. (f) of the Regulation on Bank Capital		
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	1,896,074	
Leasehold improvements on operational leases (-)	110,865	
Goodwill Netted with Deferred Tax Liabilities	21,585	35,974
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	320,534	534,225
Deferred Tax Assets that Rely on Future Profitability Excluding Those Arising from Temporary Differences (net of related tax liability)		
Differences Arise When Assets and Liabilities Not Held at Fair Value, are Subjected to Cash Flow Hedge Accounting		
Total Credit Losses That Exceed Total Expected Loss Calculated According to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach		
Securitization Gains		
Unrealized Gains and Losses from Changes in Bank's Liabilities' Fair Values due to Changes in Creditworthiness		
Net Amount of Defined Benefit Plans		
Direct and Indirect Investments of the Bank on its own Tier 1 Capital (-)	5,506	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)		
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)		
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)		
Mortgage Servicing Rights (amount above 10% threshold) (-)		
Deferred Tax Assets Arising from Temporary Differences (amount above 10% threshold, net of related tax liability) (-)		
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)		
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital not deducted from Tier I Capital (-)		
Excess Amount arising from Mortgage Servicing Rights		
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)		
Other Items to be Defined by the BRSA (-)		
Deductions from Tier I Capital in Cases where there are no Adequate Additional Tier I or Tier II Capitals (-)		
<b>Total regulatory deductions to Common equity Tier 1</b>	<b>2,354,564</b>	
<b>Total Common Equity Tier I capital</b>	<b>38,364,869</b>	
<b>ADDITIONAL TIER I CAPITAL</b>		
Privileged stocks not included in common equity and share premiums		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)		
Shares of Third Parties in Additional Tier I Capital	831,149	
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)		

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

	Current Period	Amount as per the Regulation before 1/1/2014 <sup>2)</sup>
<b>Additional Tier 1 capital before regulatory deductions</b>	<b>831,149</b>	
<b>Deductions from Additional Tier 1 Capital</b>		
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)		
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation		
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)		
The Total of Net Long Position of the Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)		
Other items to be defined by the BRSA (-)		
<b>Items to be Deducted from Tier 1 Capital during the Transition Period</b>		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier 1 Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	228,080	
Net Deferred Tax Asset/Liability not deducted from Tier 1 Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)		
Deduction from Additional Tier 1 Capital when there is not enough Tier II Capital (-)		
<b>Total Deductions from Additional Tier I Capital</b>	<b>228,080</b>	
<b>Total Additional Tier I Capital</b>	<b>603,069</b>	
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>38,967,938</b>	
<b>TIER II CAPITAL</b>		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	2,467,000	
Shares of Third Parties in Additional Tier I Capital	421,486	
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)		
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	3,286,093	
<b>Tier II Capital before Regulatory Deductions</b>	<b>6,174,579</b>	
<b>Deductions from Tier II Capital</b>		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)		
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation		
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)		
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)		
Other items to be Defined by the BRSA (-)		
<b>Total Deductions from Tier II Capital</b>		
<b>Total Tier II Capital</b>	<b>6,174,579</b>	
<b>Total Equity (Total Tier I and Tier II Capital)</b>	<b>45,142,517</b>	
<b>Deductions from Total Equity</b>	<b>49,993</b>	
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	154	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	31,370	
Other items to be Defined by the BRSA (-)	18,469	
<b>Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) during the Transition Period</b>		
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Common Equity, Additional Tier I Capital, Tier II Capital as per the 1 <sup>st</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks. (-)		
Portion of the total of net long positions of direct or indirect investments made in Additional Tier I and Tier II Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier I Capital and Tier II Capital as per the 1 <sup>st</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks. (-)		
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1 <sup>st</sup> and 2 <sup>nd</sup> Paragraph of the 2 <sup>nd</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks (-)		

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

	Current Period	Amount as per the Regulation before 1/1/2014 <sup>1)</sup>
<b>CAPITAL</b>		
Total Capital (Total of Tier I Capital and Tier II Capital)	45,092,524	
Total Risk Weighted Assets	314,468,546	
<b>CAPITAL ADEQUACY RATIOS</b>		
Consolidated CET1 Capital Ratio (%)	12.20	
Consolidated Tier I Capital Ratio (%)	12.39	
Consolidated Capital Adequacy Ratio (%)	14.34	
<b>BUFFERS</b>		
Bank-specific total CET1 Capital Ratio	5.636	
Capital Conservation Buffer Ratio (%)	0.625	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%) <sup>(2)</sup>	0.511	
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	6.339	
<b>Amounts Lower Than Excesses as per Deduction Rules</b>		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital		
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	134,584	
Remaining Mortgage Servicing Rights		
Net Deferred Tax Assets arising from Temporary Differences	591,684	
<b>Limits for Provisions Used in Tier II Capital Calculation</b>		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	3,286,093	
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	3,286,093	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach		
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets		
<b>Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)</b>		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4		
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit		
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	2,467,000	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	2,419,000	

<sup>1)</sup> Represents the amounts taken into consideration according to transition clauses.<sup>2)</sup> Systemically important bank buffer is added to bank-specific counter-cyclical capital buffer ratio in accordance with Regulation on Systemically Important Banks.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

	Prior Period <sup>(1)</sup>
<b>COMMON EQUITY TIER 1 CAPITAL</b>	
Paid-in Capital to be Entitled for Compensation after All Creditors	6,115,938
Share Premium	33,941
Share Cancellation Profits	
Legal Reserves	18,269,105
Other Comprehensive Income according to TAS	5,481,218
Profit	3,330,740
Net Current Period Profit	3,330,740
Prior Period Profit	
Provisions for Possible Losses	800,000
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit Minority shares	(1,179)
Minority shares	2,881,353
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>36,911,116</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>	
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	1,107,421
Leasehold improvements on operational leases (-)	127,342
Goodwill and intangible assets and related deferred tax liabilities (-)	200,722
Net deferred tax assets/liabilities (-)	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	
Investments in own common equity (-)	1,886
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
Mortgage servicing rights (amount above 10% threshold) (-)	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) (-)	
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	
Mortgage servicing rights (amount above 10% threshold) (-)	
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	
Other items to be defined by the regulator (-)	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions (-)	
<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>1,437,371</b>
<b>Common Equity Tier 1 capital</b>	<b>35,473,745</b>
<b>ADDITIONAL TIER 1 CAPITAL</b>	
Privileged stocks which are not included in common equity and share premiums	
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained before 1.1.2014)	
Additional shares in the capital of third parties	255,841
<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>255,841</b>
<b>Additional Tier 1 capital: regulatory adjustments</b>	
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
Other items to be Defined by the regulator (-)	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions (-)	
<b>Total regulatory adjustments to Additional Tier 1 capital</b>	
<b>Additional Tier 1 capital</b>	<b>255,841</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

	Prior Period <sup>(1)</sup>
<b>Regulatory adjustments to Common Equity</b>	
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	301,084
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	
<b>Tier 1 capital</b>	<b>35,428,502</b>
<b>TIER II CAPITAL</b>	
Directly issued qualifying Tier 2 instruments (that are approved by the regulatory) plus related stock surplus (Issued or Obtained after 01.01.2014)	
Directly issued qualifying Tier 2 instruments (that are approved by the regulatory) plus related stock surplus (Issued or Obtained before 01.01.2014)	2,915,640
Pledged sources on behalf of the Bank for the use of committed share capital increase by shareholders	
Generic Provisions	3,015,392
Additional shares in the capital of third parties	341,122
<b>Tier 2 capital before regulatory adjustments</b>	<b>6,272,154</b>
<b>Tier 2 capital: regulatory adjustments</b>	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	
The Total of Net Long Position of the Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	
Other items to be Defined by the regulator (-)	
<b>Total regulatory adjustments to Tier 2 capital</b>	
<b>Tier 2 capital</b>	<b>6,272,154</b>
<b>CAPITAL</b>	<b>41,700,656</b>
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	1,453
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	31,114
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (-)	
Other items to be Defined by the regulator (-)	13,452
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Common Equity, Additional Tier I Capital, Tier II Capital as per the 1 <sup>st</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks. (-)	
Portion of the total of net long positions of direct or indirect investments made in Additional Tier I and Tier II Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier I Capital and Tier II Capital as per the 1 <sup>st</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks. (-)	
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1 <sup>st</sup> and 2 <sup>nd</sup> Paragraph of the 2 <sup>nd</sup> clause of the Provisional Article 2 of the Regulation on the Equity of Banks (-)	
<b>EQUITY</b>	<b>41,654,637</b>
Amounts below the thresholds for deduction	
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	
Remaining total of net long positions of the investments in Tier I capital of Unconsolidated banks and Financial Institutions where the Bank owns more than 10% of the Tier I Capital	126,240
Remaining mortgage servicing rights	
Net deferred tax assets arising from temporary differences	591,861

<sup>(1)</sup> The capital amount of prior period has been calculated pursuant to former regulations.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### Information on Subordinated Liabilities

Issuer	Türkiye İş Bankası A.Ş.	
Identifier(s) (CUSIP, ISIN etc.)	US900151AB70 - XS0847042024	US900151AF84 - XS1003016018
Governing law(s) of the instrument	Subject to English Law with the exception of certain conditions that are subject to Turkish Law. Issued under the BRSA Regulation on Equities of Banks (published in the Official Gazette dated 1 November 2006 (No. 26333))	Subject to English Law with the exception of certain conditions that are subject to Turkish Law. Issued under the BRSA Regulation on Equities of Banks (published in the Official Gazette dated 1 November 2006 (No. 26333))
<b>Regulatory treatment</b>		
Subject to 10% deduction as of 1/1/2015	Yes	No
Eligible on unconsolidated and/or consolidated basis	Unconsolidated and Consolidated	Unconsolidated and Consolidated
Instrument type	Bond	Bond
Amount recognized in equity capital calculation (As of the most recent reporting date-in TL million)	1,071	1,396
Nominal value of the instrument amount (in TL million)	3,490	1,396
Accounting classification of the instrument	Subordinated Liabilities	Subordinated Liabilities
Date of issuance of the instrument	24.10.2012	10.12.2013
Maturity structure of the instrument (Perpetual or dated)	Dated	Dated
Original maturity of the instrument	10 Years	10 Years
Issuer call subject to prior supervisory (BRSA) approval	Yes	Yes
Optional call date, contingent call dates and redemption amount	The Bank; (1) subject to prior approval of the BRSA and not earlier than the fifth anniversary of the Issue Date a) can purchase the bonds b) can redeem all bonds if a tax event arises (2) can redeem all bonds in case of a capital disqualification event.	The Bank, (1) to the extent permitted by the relevant regulations, can purchase the bonds or acquire them in any manner, (2) subject to prior approval of the BRSA can redeem all bonds (a) if a tax event arises, (b) in case of a capital disqualification event.
Subsequent call dates, if applicable	None	None
<b>Coupon/dividend payments</b>		
Fixed or floating coupon/dividend payments	Fixed	Fixed
Coupon rate and any related index	6%	7.85%
Existence of any dividend payment restriction	None	None
Fully discretionary, partially discretionary or mandatory	None	None
Existence of step up or other incentive to redeem	None	None
Noncumulative or cumulative	Noncumulative	Noncumulative
<b>Convertible or non-convertible into equity shares</b>		
If convertible, conversion trigger (s)		
If convertible, fully or partially		
If convertible, conversion rate		
If convertible, mandatory or optional conversion		
If convertible, type of instrument convertible into		
If convertible, issuer of instrument to be converted into		
<b>Write-down feature</b>	None	Bonds can be written down in accordance with the paragraph 8 (2)(ğ) of the Regulation on Equities of Banks.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

If bonds can be written-down, write-down trigger(s)		Due to the losses incurred, where the Bank is at the point at which the BRSB may determine pursuant to Article 71 of the Banking Law that: (i) its operating licence is to be revoked and the Bank is liquidated or (ii) the rights of all of its shareholders (except to dividends), and the management and supervision of the Bank, are to be transferred to the SDIF on the condition that losses are deducted from the capital of existing shareholders, the bonds can be written-down.
If bonds can be written-down, full or partial		Partially or fully
If bond can be written-down, permanent or temporary		Continuously
If temporary write-down, description of write-up mechanism		
Position in subordination hierarchy in case of liquidation (instrument type immediately senior to the instrument)	In priority to equity shares and Tier 1 subordinated debts and after all the other debts.	In priority to equity shares and Tier 1 subordinated debts and after all the other debts.
Whether there is any condition in Articles 7 and 8 of the Regulation on Equities of Banks, that the instrument is not in compliance with	Yes	Yes
Conditions of Articles 7 and 8 of the Regulation on Equities of Banks, that the instrument is not in compliance with	Not compliant with article 7 and the clause of 8.2.(g) of article 8.	The instrument is in compliance with all conditions of article 8 but not compliant with article 7.

## 2. Explanations on Reconciliations of Amounts in the Consolidated Capital Items Table and Carrying Amounts in the Consolidated Financial Statements

	Carrying Amount	Amounts in Equity Calculation <sup>(1)</sup>
Shareholders' Equity	41,726,862	40,075,994
Group Share	36,676,470	36,676,470
Minority Interest	5,050,392	3,399,524
Leasehold improvements on operational leases	110,865	(110,865)
Goodwill and intangible assets	579,483	(570,199)
General provision	3,286,093	3,286,093
Subordinated debt	4,930,016	2,467,000
Deductions from shareholders' equity	55,499	(55,499)
<b>Capital</b>		<b>45,092,524</b>

<sup>(1)</sup> The related amounts are calculated in accordance with the "Regulation on Equities of Banks". In this context, general provisions limited by 1.25% of risk weighted assets and the portion of subordinated debts pursuant to temporary article 4 are taken in to consideration regarding to capital calculation.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### II. Explanations on Credit Risk

1. Credit risk is defined as the possibility of incurring loss where the counterparty in a transaction, partially or completely fails to meet its contractual obligations in due time in an agreement with the Bank and its consolidated financial subsidiaries.

Banks and financial institutions subject to consolidation, carry out their placement activities in accordance with the credit limitations stipulated by legal regulations of the countries in which they operate.

The Parent Bank's position against the credit risk limits defined by the current legislation is monitored by the Board. Within this framework, loans extended to Risk Groups and the Parent Bank's Risk Group, including the Parent Bank; loans in high amounts and limitations regarding the shares in participations are monitored according to the limits determined in connection with the size of the shareholders' equity calculated on a bank-only and consolidated basis.

Credit risk limits of customers are determined depending on the financial situation and loan requirements of the borrowers, in strict compliance with the relevant banking legislation, within the framework of loan authorization limits of Branches, Regional Offices, Loan Divisions, and the Deputy Chief Executives responsible for loans, the CEO, the Credit Committee and the Board of Directors. These limits may be changed as may be deemed necessary by the Bank. Moreover, all commercial credit limits are revised periodically, provided that each period does not exceed a year. Furthermore, the borrowers and borrower groups forming a large proportion of the overall placement are subject to risk limits in order to provide further minimization of potential risk.

The geographical distribution of borrowers is consistent with the concentration of industrial and commercial activities in Turkey.

The distribution of borrowers by sector is monitored closely for each period and sectoral risk limits have been determined to prevent concentration of risk in sectoral sense.

The credit-worthiness of customers is monitored on a consistent basis by using company rating and scoring models specially developed for this purpose, and the audit of statements of account received is assured to have been made in accordance with the provisions as stipulated by the relevant legislation.

The Parent Bank and its financial affiliates give utmost importance to ensure that loans are furnished with collaterals. Most of the loans extended are collateralized by taking real estate, movable or commercial enterprise under pledge, promissory notes and other liquid assets as collateral, or by acceptance of bank letters of guarantee and individual or corporate guarantees.

Non-performing and impaired loans has classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables (the Provisioning Regulation) published on the Official Gazette no.2633 dated 1 November 2006. The detailed descriptions of these methods correspond with accounting practices, are included in Section Three Note VIII.

Credit risk is the risk reduction effects without taking into consideration the total amount of exposures after offsetting transactions with different risk classes according to the types and amounts of disaggregated risks are listed below the average for the period.

Exposure Categories <sup>(1)</sup>	Current Period Risk Amount	Average Risk Amount <sup>(2)</sup>
Conditional and unconditional exposures to central governments or central banks	88,732,736	86,418,394
Conditional and unconditional exposures to regional governments or local authorities	51,820	36,558
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	296,630	398,406
Conditional and unconditional exposures to multilateral development banks	4,906	1,664
Conditional and unconditional exposures to international organizations		
Conditional and unconditional exposures to banks and brokerage houses	24,102,203	21,992,692
Conditional and unconditional exposures to corporate	172,494,145	153,280,737
Conditional and unconditional retail exposures	62,882,854	60,623,588
Exposures secured by residential real estate property	16,789,746	15,224,863
Exposures secured by commercial real estate property	23,581,459	21,695,197
Past due loans	1,259,379	314,845
Items in regulatory high-risk categories	137,563	34,391
Exposures in the form of bonds secured by mortgages		
Short term exposures to banks, brokerage houses and corporates		
Exposures in the form of collective investment undertakings	360,177	395,805
Stock investments	6,185,453	4,314,922
Other items	16,315,329	15,867,778

<sup>(1)</sup> The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

<sup>(2)</sup> Average risk amount is identified by using arithmetical averages of risk amounts calculated quarterly in the current period reports.

2. There are certain control limits on forward transactions in terms of counter parties, and the risks taken for derivative instruments are evaluated along with other potential risks resulting from the market fluctuations.

3. As a result of the current level of customers' needs and the progress in the domestic derivatives market in this particular area, the Parent Bank uses derivative transactions either for hedging or for commercial purposes.

Derivative instruments with a remarkable volume are monitored with consideration that they can always be liquidated in case of need.

4. Indemnified non-cash loans are considered as having the same risk weights as unpaid cash loans.

The rating and scoring systems applied by the Parent Bank, includes detailed company analysis and enables rating of all companies and loans without any restrictions regarding credibility. Loans and companies, which have been renewed, restructured or rescheduled, are rated within the scope of this system. Specialized loans are evaluated by a special rating system, which is based on the credibility of the counterparty as well as the feasibility and risk analysis of the cash flows created mainly by the projects undertaken or the asset financed.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

5. Determining the country risks of the countries concerned in the context of the current rating system credit transactions carried out abroad, market conditions, legal constraints and risks related to the country on this issue into account. In addition, banks and other financial institutions credit worthiness abroad, foreign rating agencies by based on credit ratings that are determined and CDS-IR (based on credit default swaps) a supported developed degree approach is allocated and monitored.

6. (i) The share of the Group's receivables from the top 100 and 200 cash loan customers in the overall cash loan portfolio stands at 24% and 32% respectively (31 December 2015: 22%, 29%).

(ii) The share of the Group's receivables from the top 100 and 200 non-cash loan customers in the overall non-cash portfolio stands at 53% and 63% respectively (31 December 2015: 50%, 60%).

(iii) The share of the Group's cash and non-cash receivables from the top 100 and 200 credit customers in the overall assets and non-cash loans stands at 17% and 22% (31 December 2015: 15%, 20%).

Companies that are among the top loan customers ranked according to cash, non-cash and total risks are leaders in their own sectors, the loans advanced to them are in line with their volume of industrial and commercial activity. A significant part of such loans is extended on a project basis, with their repayment sources being analyzed in accordance with the banking principles to be considered as satisfactory, and associated risks are determined and duly covered by obtaining appropriate guarantees when deemed necessary.

7. The total value of the general provisions allocated for credit risk carried by the Group stands at TL 3,286,093.

8. The Parent Bank measures the quality of its loan portfolio by applying different rating/scoring models on cash commercial/corporate loans, retail loans and credit cards. The breakdown of the rating/scoring results, which are classified as "Strong", "Standard" and "Below Standard" by considering their default features, is shown below.

The loans whose borrowers' capacity to fulfill their obligations is very good, are defined as "Strong", whose borrowers' capacity to fulfill its obligations in due time is reasonable, are defined as "Standard" and whose borrowers' capacity to fulfill their obligations is poor, are defined as "Below Standard".

	Current Period	Prior Period
Strong	39.91%	41.66%
Standard	50.57%	51.32%
Below Standard	7.03%	5.72%
Not Rated/Scored	2.49%	1.30%

The table data comprises behavior rating/scoring results; due to the changes in rating/scoring models in the current period, the allocation of the loan portfolio in 2015 is reported with updates in order to make it comparable.

9. The net values of the collaterals of the Group's closely monitored loans are given below in terms of collateral types and risk matches.

Type of Collateral	Current Period			Prior Period		
	Consumer	Commercial and Corporate	Credit Card	Consumer	Commercial and Corporate	Credit Card
Real Estate Mortgage <sup>(1)</sup>	532,291	1,996,601		403,899	661,759	
Cash Collateral (Cash provisions, securities pledge, etc.)	3,793	12,777		2,537	19,717	
Pledges on Wages and Vehicle	373,425	101,681		383,964	115,505	
Cheques & Notes		64,034			94,843	
Other (Suretyships, commercial enterprise under pledge, commercial papers, etc.)	91,851	1,458,048		112,125	988,465	
Unsecured	403,829	821,007	657,160	383,862	178,008	540,311
<b>Total</b>	<b>1,405,189</b>	<b>4,454,148</b>	<b>657,160</b>	<b>1,286,387</b>	<b>2,058,297</b>	<b>540,311</b>

<sup>(1)</sup> The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair values of collaterals in expertise reports; and after comparing the results to the mortgage/pledge amounts and loan balances, the smallest figures are considered to be the net value of collaterals.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

10. The net values of the collaterals of the Group's non-performing loans are given below in terms of collateral types and risk matches.

Type of Collateral	Current Period		Prior Period	
	Net Value of the Collateral	Loan Balance	Net Value of the Collateral	Loan Balance
Real Estate Mortgage <sup>(1)</sup>	1,035,488	1,035,488	549,815	549,815
Cash Collateral	602	602	878	878
Vehicle Pledge	113,602	113,602	80,112	80,112
Other (suretyships, commercial enterprise under pledge, commercial papers, etc.)	124,814	124,814	134,057	134,057

<sup>(1)</sup> The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair values of collaterals in expertise reports, and after comparing the results to the mortgage/pledge amounts and loan balances the smallest figures are considered to be the net value of collaterals.

11. The aging analysis of the receivables past due but not impaired in terms of financial asset classes, is as follows:

Current Period	31-60 Days <sup>(2)</sup>	61-90 Days <sup>(2)</sup>	Total
Loans <sup>(1)</sup>	400,811	325,937	726,748
Corporate/Commercial Loans <sup>(3)</sup>	151,875	170,408	322,283
Consumer Loans	62,665	40,745	103,410
Credit Cards	186,271	114,784	301,055
Lease Receivables <sup>(4)</sup>	5,717	3,115	8,832
Insurance Receivables	25,987	12,564	38,551
<b>Total</b>	<b>432,515</b>	<b>341,616</b>	<b>774,131</b>

<sup>(1)</sup> The loans classified as closely monitored that are not past due or past due for less than 31 days is TL 4,456,627.

<sup>(2)</sup> Related figures show only overdue amounts of installment based commercial loans and installment based consumer loans; the principal amounts of the loans which are not due as of the balance sheet date are equal to TL 773,869 and TL 576,581 respectively.

<sup>(3)</sup> Includes factoring receivables.

<sup>(4)</sup> Includes only overdue installments, total principal amounts which are not due as of the balance sheet date is TL 286,823. Loans overdue between 91-150 days are amounting to TL 3,059.

Prior Period	31-60 Days <sup>(2)</sup>	61-90 Days <sup>(2)</sup>	Total
Loans <sup>(1)</sup>	276,479	132,854	409,333
Corporate/Commercial Loans <sup>(3)</sup>	67,925	42,587	110,512
Consumer Loans	56,526	24,857	81,383
Credit Cards	186,271	65,410	217,438
Lease Receivables <sup>(4)</sup>	5,717	17,342	22,102
Insurance Receivables	25,987	11,863	35,457
<b>Total</b>	<b>432,515</b>	<b>162,059</b>	<b>466,892</b>

<sup>(1)</sup> The loans classified as closely monitored that are not past due or past due for less than 31 days is TL 2,411,542.

<sup>(2)</sup> Related figures show only overdue amounts of installment based commercial loans and installment based consumer loans; the principal amounts of the loans which are not due as of the balance sheet date are equal to TL 512,447 and TL 551,673 respectively.

<sup>(3)</sup> Includes factoring receivables

<sup>(4)</sup> Includes only overdue installments, the principal amounts which are not due as of the balance sheet date is TL 286,823. Loans overdue between 91-150 days are amounting to TL 1,098.

Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

12. Profile of Significant Risk Exposures in Major Regions:

Current Period	Domestic	European Union	OECD Countries <sup>(2)</sup>	Off-Shore Banking Regions	USA, Canada	Other Countries	Investments in Associates, Subsidiaries and Jointly Controlled Entities	Unallocated Assets/Liabilities <sup>(3)</sup>	Total
<b>Risk Groups <sup>(1)</sup></b>									
Contingent and Non-Contingent Receivables from Central Governments or Central Banks	87,761,026	2,237				969,473			88,732,736
Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	51,055					765			51,820
Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	296,511					119			296,630
Contingent and Non-Contingent Receivables from Multilateral Development Banks		4,731			175				4,906
Contingent and Non-Contingent Receivables from International Organizations									
Contingent and Non-Contingent Receivables from Banks and Intermediaries	12,720,192	9,577,485	401,360	6,081	479,818	917,267			24,102,203
Contingent and Non-Contingent Corporate Receivables	166,434,171	2,212,710	147,869	16,222	302,636	3,380,537			172,494,145
Contingent and Non-Contingent Retail Receivables	61,951,218	409,166	29,032	4,054	18,740	470,644			62,882,854
Contingent and Non-Contingent Receivables Secured by Residential Property	39,883,519	150,202	23,688	3	11,327	302,466			40,371,205
Non-Performing Receivables	1,220,114	34,836	86	2	195	4,146			1,259,379
Receivables are identified as high risk by the Board	130,870	101	4		22	6,566			137,563
Secured Marketable Securities									
Securitization Positions									
Short-term Receivables and Short-term Corporate Receivables from Banks and Intermediaries									
Investments as Collective Investment Institutions	355,272	4,905							360,177
Other Receivables	16,315,329								16,315,329
Stock Investments <sup>(4)</sup>							6,185,453		6,185,453
<b>Total</b>	<b>387,119,277</b>	<b>12,396,373</b>	<b>602,039</b>	<b>26,362</b>	<b>812,913</b>	<b>6,051,983</b>	<b>6,185,453</b>		<b>413,194,400</b>

<sup>(1)</sup> The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

<sup>(2)</sup> OECD Countries other than EU countries, USA and Canada.

<sup>(3)</sup> Assets and liabilities that are not consistently allocated.

<sup>(4)</sup> Classified under Other Receivables in prior periods.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

Prior Period	Domestic	European Union	OECD Countries <sup>(2)</sup>	Off-Shore Banking Regions	USA, Canada	Other Countries	Investments in Associates, Subsidiaries and Jointly Controlled Entities	Unallocated Assets/Liabilities <sup>(3)</sup>	Total
<b>Risk Groups <sup>(1)</sup></b>									
Contingent and Non-Contingent Receivables from Central Governments or Central Banks	82,238,735	3,738				677,752			82,920,225
Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	47,548					1,491			49,039
Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	362,929	17,842				248			381,019
Contingent and Non-Contingent Receivables from Multilateral Development Banks		308			215				523
Contingent and Non-Contingent Receivables from International Organizations									
Contingent and Non-Contingent Receivables from Banks and Intermediaries	10,717,860	5,686,656	454,373	51,746	554,002	884,940			18,349,577
Contingent and Non-Contingent Corporate Receivables	140,321,601	4,350,641	78,695	1,218	2,640,651	3,338,184			150,730,990
Contingent and Non-Contingent Retail Receivables	46,502,664	432,390	21,549	227	8,297	183,478			47,148,605
Contingent and Non-Contingent Receivables Secured by Residential Property	33,595,233	134,461	25,749	6	9,660	305,331			34,070,440
Non-Performing Receivables	1,026,625	995	30		46	672			1,028,368
Receivables are identified as high risk by the Board	14,002,913	41,881	5,683	141	3,814	286,817			14,341,249
Secured Marketable Securities Securitization Positions									
Short-term Receivables and Short-term Corporate Receivables from Banks and Intermediaries									
Investments as Collective Investment Institutions	224,741	4,510							229,251
Other Receivables	14,172,639						4,948,894		19,121,533
<b>Total</b>	<b>343,213,488</b>	<b>10,673,422</b>	<b>586,079</b>	<b>53,338</b>	<b>3,216,685</b>	<b>5,678,913</b>	<b>4,948,894</b>		<b>368,370,819</b>

<sup>(1)</sup> The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

<sup>(2)</sup> OECD Countries other than EU countries, USA and Canada.

<sup>(3)</sup> Assets and liabilities that are not consistently allocated.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## 13. Risk Profile by Sectors or Counterparties:

Sectors/Counterparty <sup>(15)</sup>	Current Period Consolidated							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Agriculture</b>		1,379	1,338				1,273,137	714,653
Farming and Stockbreeding		1,379	1,338				1,076,545	663,917
Forestry							145,051	41,171
Fishing							51,541	9,565
<b>Industry</b>		327	94,433				73,230,653	3,190,046
Mining			3				4,054,977	116,607
Production		324	1,256				37,578,981	3,032,658
Electricity, gas, and water		3	93,174				31,596,695	40,781
<b>Construction</b>			5,439				20,125,925	1,889,784
<b>Services</b>	20,860,325		159,588	4,906		24,094,804	74,572,642	24,351,876
Wholesale and Retail Trade			126				26,553,264	6,990,890
Hotel, Food and Beverage Services			63				4,187,714	556,857
Transportation and Telecommunication			523				15,126,994	2,818,407
Financial Institutions	20,860,121		2,703	4,906		23,732,669	6,925,498	11,493,002
Real Estate and Renting Services			57,925			362,013	15,856,573	1,012,891
Self-Employment Services			95,359			122	2,549,648	1,096,624
Education Services	204		2,172				841,778	128,694
Health and Social Services			717				2,531,173	254,511
<b>Other</b>	67,872,411	50,114	35,832			7,399	3,291,788	32,736,495
<b>Total</b>	<b>88,732,736</b>	<b>51,820</b>	<b>296,630</b>	<b>4,906</b>		<b>24,102,203</b>	<b>172,494,145</b>	<b>62,882,854</b>

<sup>(1)</sup> Contingent and non-contingent exposures to central governments or central banks<sup>(2)</sup> Contingent and non-contingent exposures to regional governments or local authorities<sup>(3)</sup> Contingent and non-contingent exposures to administrative bodies and non-commercial undertakings<sup>(4)</sup> Contingent and non-contingent exposures to multilateral development banks<sup>(5)</sup> Contingent and non-contingent exposures to international organizations<sup>(6)</sup> Contingent and non-contingent exposures to banks and brokerage houses<sup>(7)</sup> Contingent and non-contingent corporate receivables<sup>(8)</sup> Contingent and non-contingent retail receivables<sup>(9)</sup> Contingent and non-contingent exposures secured by real estate property<sup>(10)</sup> Past due receivables<sup>(11)</sup> Receivables in regulatory high-risk categories<sup>(12)</sup> Investments in the nature of collective investment enterprise<sup>(13)</sup> Other Receivables.<sup>(14)</sup> Share Certificate Investments<sup>(15)</sup> Risk amounts after the credit conversions and the effects of credit risk mitigation

Current Period Consolidated									
	(9)	(10)	(11)	(12)	(13)	(14)	TL	FC	Total
	578,972	13,548	3,686				2,132,871	453,842	2,586,713
	285,284	10,750	3,162				1,928,786	113,589	2,042,375
	17,508	968	399				167,912	37,185	205,097
	276,180	1,830	125				36,173	303,068	339,241
	7,086,297	236,861	32,100				20,529,105	63,341,612	83,870,717
	122,990	6,413	806				766,150	3,535,646	4,301,796
	6,472,602	228,709	30,974				15,925,566	31,419,938	47,345,504
	490,705	1,739	320				3,837,389	28,386,028	32,223,417
	4,135,003	111,857	46,260				12,992,577	13,321,691	26,314,268
	17,100,738	369,921	53,504	360,177	4,266,635	5,126,502	81,269,861	90,051,757	171,321,618
	7,531,126	224,877	34,969				28,592,702	12,742,550	41,335,252
	2,431,400	18,515	1,559				2,228,440	4,967,668	7,196,108
	1,523,034	31,720	3,304			4,021,670	11,120,841	12,404,811	23,525,652
	136,209	1,202	453	360,177	4,266,635	469,457	26,479,548	41,773,484	68,253,032
	3,490,341	35,789	2,668			621,937	6,463,693	14,976,444	21,440,137
	1,308,063	40,193	9,584			13,438	4,300,950	812,081	5,113,031
	264,186	10,130	297				880,094	367,367	1,247,461
	416,379	7,495	670				1,203,593	2,007,352	3,210,945
	11,470,195	527,192	2,013		12,048,694	1,058,951	105,941,230	23,159,854	129,101,084
	40,371,205	1,259,379	137,563	360,177	16,315,329	6,185,453	222,865,644	190,328,756	413,194,400

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## 14. Analysis of Maturity-Bearing Exposures According to Remaining Maturities:

Risk Groups <sup>(1)</sup>	Current Period Remaining Maturities					Total
	1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year	
Contingent and Non-Contingent Receivables from Central Governments or Central Banks	684,345	1,823,556	180,853	4,544,640	50,459,793	57,693,187
Contingent and Non-Contingent Receivables from Regional Governments or Domestic Governments	1,505	3,043	3,271	9,351	30,556	47,726
Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	14,991	26,840	34,303	27,759	176,728	280,621
The multilateral development banks and non-contingent receivables		4,731		175		4,906
Contingent and Non-Contingent Receivables from Banks and Intermediaries	4,297,948	5,402,373	1,651,316	2,631,434	6,228,155	20,211,226
Contingent and Non-Contingent Corporate Receivables	11,536,379	17,553,143	15,292,655	21,132,054	101,987,972	167,502,203
Contingent and Non-Contingent Retail Receivables	11,918,928	3,567,857	3,441,407	8,917,745	30,817,787	58,663,724
Contingent and Non-Contingent Collateralized Receivables with Real Estate Mortgages	1,618,511	2,529,697	1,978,849	4,904,651	24,177,350	35,209,058
Receivables are identified as High Risk by the Board	5,153	4,987	12,046	11,631	50,161	83,978
<b>Total</b>	<b>30,077,760</b>	<b>30,916,227</b>	<b>22,594,700</b>	<b>42,179,440</b>	<b>213,928,502</b>	<b>339,696,629</b>

<sup>(1)</sup> The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

## 15. Information on Risk Classes:

In the calculation of the amount subject to credit risk, determining the risk weights related to risk classes stated on the sixth article of "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", is based on the Fitch Ratings' international rating. While receivables from resident banks in abroad which is assessed in the risk class of "Contingent and Non-Contingent Receivables from Banks and Brokerage Agencies" and receivables from central governments which is assessed in the risk class of "Contingent and Non-Contingent Receivables from Central Governments or Central Banks" will be subjected to risk weights with the scope of ratings; therefore domestic resident banks accepted as unrated, the risk weight is applied according to receivables from relevant banks, type of exchange and original maturity.

If a receivable-specific rating is performed, risk weights to be applied on the receivable are determined by the relevant credit rating.

The table related to mapping the ratings used in the calculations and credit quality grades, which is stated in the Annex of Regulation on Measurement and Evaluation of Capital Adequacy of Banks, is given below:

Credit Quality Grades	1	2	3	4	5	6
Risk Rating	AAA via AA-	A+ via A-	BBB+ via BBB-	BB+ via BB-	B+ via B-	CCC+ and lower

There is no credit rating and credit export agency has been assigned for the items that are not included to trading accounts.

## Risk Amounts according to Risk Weights

Risk Weight	0%	20%	35%	50%	75%	100%	150%	250%	Mitigation in Shareholders' Equity
Amount Before Credit Risk Mitigation <sup>(1)</sup>	63,789,089	8,461,184	16,789,746	73,548,133	51,928,197	207,431,481	87,132	726,268	712,434
Amount After Credit Risk Mitigation	63,789,089	8,452,872	16,789,744	73,475,509	51,523,433	198,350,394	87,091	726,268	712,434

<sup>(1)</sup> The figures represent total risk amounts before credit risk mitigation and after credit conversion factor.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### 16. Miscellaneous Information According to Type of Counterparty of Major Sectors

Significant Sectors/Counterparty <sup>(1)</sup>	Loans		Value Adjustments <sup>(3)</sup>	Provisions <sup>(4)</sup>
	Impaired	Non-performing <sup>(2)</sup>		
Agricultural	78,019	12,453	1,223	63,535
Farming and Raising Livestock	66,879	11,691	1,165	55,193
Forestry	6,824	651	40	5,856
Fishing	4,316	111	18	2,486
Industry	1,209,436	85,711	7,164	960,670
Mining	82,553	4,510	310	75,624
Production	1,071,998	80,884	6,772	831,900
Electricity, gas, and water	54,885	317	82	53,146
Construction	632,433	45,714	5,698	513,850
Services	1,748,166	202,098	26,289	1,317,219
Wholesale and Retail Trade	1,160,784	61,782	11,604	876,090
Hotel, Food and Beverage Services	170,303	34,659	2,863	151,470
Transportation and Telecommunication	126,479	27,621	6,627	94,152
Financial Institutions	12,842	1,425	136	11,640
Real Estate and Renting Services	121,618	24,604	2,284	85,829
Self-Employment Services	110,847	3,956	833	70,654
Education Services	20,760	1,767	509	10,630
Health and Social Services	24,533	46,284	1,433	16,754
Other	1,836,251	392,663	40,394	1,309,059
<b>Total</b>	<b>5,504,305</b>	<b>738,639</b>	<b>80,768</b>	<b>4,164,333</b>

<sup>(1)</sup> Amount includes finance lease and factoring receivables.

<sup>(2)</sup> Refers to loans that are classified as closely monitored and overdue 31-90 days and financial lease receivables overdue up to 31-150 days. Related items represent invoiced financial lease receivables overdue amounts of installment based commercial loans and installment based consumer loans. The principal amounts of these loans which are not due as of the balance sheet date are equal to TL 773,869 and TL 576,581 respectively. The balance of the invoiced but not matured leasing receivables is amounting to TL 286,823

<sup>(3)</sup> Refers to the general provisions for non-performing loans.

<sup>(4)</sup> Refers to specific provision for impaired loans.

#### 17. Information on Value Adjustments and Change in Credit Provisions

	Beginning Balance	Provisions	Reversal of Provisions	Other Value Adjustments <sup>(1)</sup>	Ending Balance
Specific Provisions	2,891,863	2,056,969	(915,578)	(19,152)	4,014,102
General Provisions	3,015,392	302,173	(39,361)	7,889	3,286,093

<sup>(1)</sup> Indicates foreign exchange gains and losses.

#### 18. Exposures Subject to Countercyclical Capital Buffer

##### Explanations about exposures subject to private sector:

Country	RWA Calculations for Private Sector Loans in Banking Book	RWA calculations for Trading Book	Total
Turkey	224,296,372	737,147	225,033,519
TRNC-Turkish Republic of Northern Cyprus	1,163,594		1,163,594
Germany	1,087,686		1,087,686
Albania	602,298		602,298
Malta	461,371		461,371
Iraq	333,160		333,160
Russia	326,014	8	326,022
United States	316,058		316,058
England	311,608	459	312,067
Georgia	309,945		309,945
Other	2,080,970	26,791	2,107,761

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## III. Explanations on Currency Risk

Foreign currency position risk for the Group is a result of the difference between the Group's assets denominated in and indexed to foreign currencies and liabilities denominated in foreign currencies. Furthermore, parity fluctuations of different foreign currencies are another element of the currency risk.

The currency risk for the Parent Bank is managed by the internal currency risk limits which are established as a part of the Parent Bank's risk policies. The Assets and Liabilities Committee and the Assets and Liabilities Management Unit meet regularly to take the necessary decisions for hedging exchange rate and parity risks, within framework of the determined by the "Net Foreign Currency Overall Position/Shareholders' Equity" standard ratio, which is a part of the legal requirement and the internal currency risk limits specified by the Board of Directors. Foreign exchange risk management decisions are strictly applied.

In measuring currency risk, which the Group is exposed to, both the Standard Method and the Value at Risk Model (VAR) are used as applied in the statutory reporting.

Measurements made for the Parent Bank within the scope of the Standard Method are carried out on a monthly basis and form the basis of determining the capital requirement for hedging currency risk.

Risk measurements made within the context of the VAR are made on a daily basis using the historical and Monte Carlo simulation methods. Furthermore, scenario analyses are conducted to support the calculations made within the VAR context.

The results of the measurements made on currency risk are reported to the Key Management and the risks are closely monitored by taking into account the market and the economic conditions.

The Parent Bank's foreign currency purchase rates at the date of balance sheet and for the last five working days of the period announced by the Parent Bank in TL are as follows:

Date	USD	EUR
31 December 2016	3.4900	3.6820
30 December 2016	3.4900	3.6820
29 December 2016	3.4845	3.6521
28 December 2016	3.5090	3.6459
27 December 2016	3.4874	3.6457
26 December 2016	3.4735	3.6347

The Parent Bank's last 30-days arithmetical average foreign currency purchase rates:

USD: TL 3.4516      EURO: TL 3.6344

## Sensitivity to currency risk:

The Group's sensitivity to any potential change in foreign currency rates has been analyzed. Within this framework, 10% change is anticipated in USD, EUR, RUB and JPY currencies and the possible impact of the related change is presented below. 10% is the ratio that is used in the internal reporting of the Parent Bank.

	% Change in Foreign Currency	Effects on Profit/Loss <sup>(1)</sup>	
		Current Period	Prior Period
USD	10% increase	(33,417)	315,616
	10% decrease	33,417	(315,616)
EUR	10% increase	(457,163)	(420,697)
	10% decrease	457,163	420,697
RUB	10% increase	29,515	30,832
	10% decrease	(29,515)	(30,832)
JPY	10% increase	(33,649)	970
	10% decrease	33,649	(970)

<sup>(1)</sup> Indicates the values before tax.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### Information on currency risk:

Current Period	EUR	USD	Other FC	Total
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	6,841,885	15,652,022	4,461,766	26,955,673
Banks	4,448,638	1,413,403	615,795	6,477,836
Financial Assets at Fair Value through Profit/Loss <sup>(1)</sup>	251,743	1,417,460	42	1,669,245
Money Market Placements	191,138			191,138
Financial Assets Available for Sale	1,046,857	12,527,733	27,555	13,602,145
Loans <sup>(2)</sup>	39,541,510	66,377,687	2,320,471	108,239,668
Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)				
Held to Maturity Investments	47,884	245,005	88,909	381,798
Derivative Financial Assets Held for Risk Management		272		272
Tangible Assets <sup>(3)</sup>	10,836	234	52,950	64,020
Intangible Assets <sup>(4)</sup>				
Other Assets <sup>(5)</sup>	2,058,165	2,748,894	109,159	4,916,218
<b>Total Assets</b>	<b>54,438,656</b>	<b>100,382,710</b>	<b>7,676,647</b>	<b>162,498,013</b>
<b>Liabilities</b>				
Bank Deposits	1,824,188	3,496,175	892,371	6,212,734
Foreign Currency Deposits <sup>(2)</sup>	28,251,291	50,205,561	7,213,600	85,670,452
Money Market Funds	546,548	2,885,091		3,431,639
Funds Provided from Other Financial Inst.	17,093,240	31,158,549	10,983	48,262,772
Marketable Securities Issued <sup>(4)</sup>	121,832	25,558,487	12,323	25,692,642
Miscellaneous Payables	687,987	1,096,099	126,076	1,910,162
Derivative Financial Liabilities Held for Risk Management		51,433		51,433
Other Liabilities <sup>(1)(5)</sup>	683,938	1,429,563	214,136	2,327,637
<b>Total Liabilities</b>	<b>49,209,024</b>	<b>115,880,958</b>	<b>8,469,489</b>	<b>173,559,471</b>
<b>Net On Balance Sheet Position</b>	<b>5,229,632</b>	<b>(15,498,248)</b>	<b>(792,842)</b>	<b>(11,061,458)</b>
<b>Net Off Balance Sheet Position</b>	<b>(9,927,732)</b>	<b>16,404,578</b>	<b>421,364</b>	<b>6,898,210</b>
Derivative Financial Assets <sup>(6)</sup>	6,773,402	31,517,744	4,939,905	43,231,051
Derivative Financial Liabilities <sup>(6)</sup>	16,701,134	15,113,166	4,518,541	36,332,841
Non-Cash Loans	14,554,662	26,064,012	2,756,649	43,375,323
<b>Prior Period</b>				
Total Assets	39,307,821	88,275,243	8,230,993	135,814,057
Total Liabilities	44,956,086	98,233,726	6,534,684	149,724,496
<b>Net Balance Sheet Position</b>	<b>(5,648,265)</b>	<b>(9,958,483)</b>	<b>1,696,309</b>	<b>(13,910,439)</b>
<b>Net Off Balance Sheet Position</b>	<b>1,218,569</b>	<b>12,218,946</b>	<b>(2,213,070)</b>	<b>11,224,445</b>
Derivative Financial Assets	8,553,249	27,327,679	2,995,813	38,876,741
Derivative Financial Liabilities	7,334,680	15,108,733	5,208,883	27,652,296
Non-Cash Loans	9,425,344	21,436,135	1,201,233	32,062,712

<sup>(1)</sup> In accordance with the principles of the "Regulation on the Calculation and Implementation of Foreign Currency Net General Position/Equity Standard Ratio by Banks on Consolidated and Non-Consolidated Basis", Derivative Financial Instruments Foreign Currency Income Accruals (TL 665,876); Operating Lease Development Costs (TL 8,187), Deferred Tax Asset (TL 121,822), Prepaid Expenses and Taxes (TL 70,882), Intangible Assets (TL 75,837) in assets and Derivative Financial Instruments Foreign Currency Expense Accruals (TL 445,500), General Reserves (TL 53,686), and Shareholders' Equity (TL 393,615) in liabilities are not taken into consideration in the currency risk measurement.

<sup>(2)</sup> Includes factoring receivables and foreign currency indexed loans, which are followed under TL account. Of the total amount of TL 8,392,869 of the aforementioned loans; TL 4,282,591 is USD indexed, TL 4,086,100 is EUR indexed, TL 5,949 is CHF indexed, TL 5,296 is GBP indexed, TL 12,918 is JPY indexed and TL 15 is CAD indexed. The balances include factoring receivables.

<sup>(3)</sup> Includes TL 2,832,828 precious metals deposit accounts.

<sup>(4)</sup> Includes subordinated bonds which are classified on the balance sheet as subordinated loans, amounting to TL 4,930,016.

<sup>(5)</sup> The borrower funds are presented in the "Other Liabilities" according to their type of currency.

<sup>(6)</sup> The derivative transactions are taken into consideration within the context of the forward foreign currency trading definitions in the above mentioned Regulation

#### IV. Explanations on Interest Rate Risk

"Interest Rate Risk" is defined as the decrease that can arise in the value of the interest sensitive assets, liabilities and off-balance sheet operations a result of interest rate fluctuations. The method of average maturity gap according to the repricing dates is used for measuring the interest rate risk arising from the banking accounts, whereas the interest rate risk related to interest sensitive financial instruments followed under trading accounts is assessed within the scope of market risk.

Potential effects of interest rate risk on the Parent Bank's assets and liabilities, market developments, the general economic environment and expectations are regularly followed in meetings of the Asset-Liability Committee, where further measures to reduce risk are taken when necessary.

The Parent Bank's on and off-balance sheet interest sensitive accounts other than the assets and liabilities exposed to market risk are monitored and controlled by the limits above the average maturity gaps according to the repricing periods determined by the Board within the scope of asset-liability management risk policy. Moreover, scenario analyses formed in line with the historical data and expectations are also used in the management of the related risk.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## Interest rate sensitivity:

In this part, the sensitivity of the Bank's assets and liabilities to the interest rates has been analyzed assuming that the yearend balance figures were the same throughout the year. Mentioned analysis shows how the FC and TL changes in interest rates by one point during the one-year period affect the Group's income accounts and shareholders' equity under the assumption maturity structure and balances are remain the same all year round at the end of the year.

During the measurement of the Group's interest rate sensitivity, the profit/loss on the asset and liability items that are evaluated with market value are determined by adding to/deducting from the difference between the expectancy value of the portfolio after one year in case there is no change in interest rates and the value of the portfolio one year later, which is measured after the interest shock, the interest income to be additionally earned/to be deprived of during the one year period due to the renewal or repricing of the related portfolio at the interest rates formed after the interest shock

On the other hand, in the profit/loss calculation of assets and liabilities that are not evaluated by the current market prices, it is assumed that assets and liabilities with fixed interest rates will be renewed at maturity date and the assets and liabilities having variable interest rates will be renewed at the end of repricing period with the market interest rates generated after the interest shock.

Within this context, ceteris paribus, the possible changes that may occur in the Bank's profit and shareholders' equity in case of 100 base point increase/decrease in TL and FC interest rates on the reporting day are given below:

% Change in the Interest Rate <sup>(1)</sup>		Effect On Profit/Loss <sup>(2)</sup>		Effect on Equity <sup>(3)</sup>	
TL	FC <sup>(4)</sup>	Current Period	Prior Period	Current Period	Prior Period
100 bp increase	100 bp increase	19,851	(79,893)	(915,955)	(881,043)
100 bp decrease	100 bp decrease	129,039	133,312	1,011,978	971,396

<sup>(1)</sup> The effects on the profit/loss and shareholders' equity are stated with their before tax values.

<sup>(2)</sup> The effect on the profit/loss is mainly arising from the fact that the average maturity of the Bank's fixed rate liabilities is shorter than the average maturity of its fixed rate assets.

<sup>(3)</sup> The effect on the shareholders' equity is arising from the change of the fair value of securities followed under Financial Assets Available for Sale.

<sup>(4)</sup> The negative shock imposed on FC interest rates remained below the aforementioned rates in some maturity segments due to LIBOR rates being in low levels.

## a. Interest rate sensitivity of assets, liabilities and off balance sheet items (Based on repricing dates):

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest Bearing	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	20,086,980					13,146,151	33,233,131
Banks	4,503,498	2,166,989	457,513			2,129,793	9,257,793
Financial Assets at Fair Value through Profit/Loss	818,550	767,794	983,541	354,021	104,463	407,375	3,435,744
Money Market Placements	403,876	62,962					466,838
Financial Assets Available for Sale	5,062,251	8,180,205	10,220,017	14,367,949	13,501,699	438,251	51,770,372
Loans <sup>(1)</sup>	53,992,089	29,236,664	52,031,335	72,135,438	20,668,238	217,455	228,281,219
Held to Maturity Investments	3,105,471	721,700	2,274,883	164,227	491,477		6,757,758
Other Assets	1,808,719	1,035,452	957,566	980,091	664,328	35,171,253	40,617,409
<b>Total Assets</b>	<b>89,781,434</b>	<b>42,171,766</b>	<b>66,924,855</b>	<b>88,001,726</b>	<b>35,430,205</b>	<b>51,510,278</b>	<b>373,820,264</b>
<b>Liabilities</b>							
Bank Deposits	2,256,236	1,152,411	712,690	198,828		2,730,702	7,050,867
Other Deposits	95,386,058	20,299,138	11,330,549	3,203,562	18,355	41,870,909	172,108,571
Money Market Funds	23,287,746	518,211	1,129,751	38,295			24,974,003
Miscellaneous Payables	1,013,671	1,734	1,652	5,488		21,371,356	22,393,901
Marketable Securities Issued <sup>(2)</sup>	1,870,910	3,230,258	4,548,955	16,894,669	7,045,905		33,590,697
Funds Provided from Other Financial Institutions	8,076,458	22,934,411	14,766,201	2,649,579	3,739,430		52,166,079
Other Liabilities <sup>(3)(4)</sup>	684,051	259,806	415,549	131,964	20,201	60,024,575	61,536,146
<b>Total Liabilities</b>	<b>132,575,130</b>	<b>48,395,969</b>	<b>32,905,347</b>	<b>23,122,385</b>	<b>10,823,891</b>	<b>125,997,542</b>	<b>373,820,264</b>
Balance Sheet Long Position			34,019,508	64,879,341	24,606,314		123,505,163
Balance Sheet Short Position	(42,793,696)	(6,224,203)				(74,487,264)	(123,505,163)
Off Balance Sheet Long Position	2,614,590	3,967,546					6,582,136
Off Balance Sheet Short Position			(380,116)	(2,507,376)	(2,737,265)		(5,624,757)
<b>Total Position</b>	<b>(40,179,106)</b>	<b>(2,256,657)</b>	<b>33,639,392</b>	<b>62,371,965</b>	<b>21,869,049</b>	<b>(74,487,264)</b>	<b>957,379</b>

<sup>(1)</sup> Includes factoring receivables.

<sup>(2)</sup> The amount of TL 4,930,016 of Tier 2 subordinated issued bonds having credit quality, which are classified on the balance sheet under the subordinated loans, are also included.

<sup>(3)</sup> Equity is included in "non-interest bearing" column.

<sup>(4)</sup> The borrower funds are presented in "Up to 1 month" column in other liabilities.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### Interest rate sensitivity of assets, liabilities and off balance sheet items (Based on repricing periods):

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest Bearing	Total
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	19,847,265					12,642,711	32,489,976
Banks	3,213,459	1,780,087	233,134	14,833		1,134,581	6,376,094
Financial Assets at Fair Value through Profit/Loss	580,404	563,671	754,834	216,377	72,603	315,560	2,503,449
Money Market Placements	1,109,592	198,611					1,308,203
Financial Assets Available for Sale	4,726,047	7,248,318	9,611,044	13,167,082	11,753,789	503,062	47,009,342
Loans <sup>(1)</sup>	45,893,591	26,148,831	43,577,782	62,519,687	17,548,629	200,585	195,889,105
Investments Held to Maturity	1,817,427	679,880	1,830,570	12,132	157,408		4,497,417
Other Assets	1,491,447	190,971	772,450	1,946,260	119,910	30,904,348	35,425,386
<b>Total Assets</b>	<b>78,679,232</b>	<b>36,810,369</b>	<b>56,779,814</b>	<b>77,876,371</b>	<b>29,652,339</b>	<b>45,700,847</b>	<b>325,498,972</b>
<b>Liabilities</b>							
Bank Deposits	4,012,011	1,266,368	1,815,981	64,168		763,508	7,922,036
Other Deposits	73,322,388	26,617,230	8,785,633	3,077,821	6,386	34,469,796	146,279,254
Money Market Funds	22,730,348	934,183	959,902				24,624,433
Miscellaneous Payables	776,231		2,071	4,488		17,058,833	17,841,623
Marketable Securities Issued <sup>(2)</sup>	2,546,925	5,099,680	4,498,481	9,807,157	6,174,448		28,126,691
Funds Provided from Other Financial Institutions	8,098,278	23,700,577	8,918,789	1,592,522	3,304,204		45,614,370
Other Liabilities <sup>(3)(4)</sup>	565,262	309,106	383,789	97,308	8,483	53,726,617	55,090,565
<b>Total Liabilities</b>	<b>112,051,443</b>	<b>57,927,144</b>	<b>25,364,646</b>	<b>14,643,464</b>	<b>9,493,521</b>	<b>106,018,754</b>	<b>325,498,972</b>
Balance Sheet Long Position			31,415,168	63,232,907	20,158,818		114,806,893
Balance Sheet Short Position	(33,372,211)	(21,116,775)				(60,317,907)	(114,806,893)
Off Balance Sheet Long Position	1,374,700	2,897,211					4,271,911
Off Balance Sheet Short Position			(1,171,414)	(1,367,729)	(1,439,215)		(3,978,358)
<b>Total Position</b>	<b>(31,997,511)</b>	<b>(18,219,564)</b>	<b>30,243,754</b>	<b>61,865,178</b>	<b>18,719,603</b>	<b>(60,317,907)</b>	<b>293,553</b>

<sup>(1)</sup> Includes factoring receivables.

<sup>(2)</sup> The amount of TL 4,047,133 of Tier 2 subordinated issued bonds having credit quality, which are classified on the balance sheet under the subordinated loans, are also included.

<sup>(3)</sup> Total amount of equity is represented in "non-interest bearing" column.

<sup>(4)</sup> The borrower funds are presented in "Up to 1 month" column in other liabilities.

#### b. Average interest rates applied to monetary financial instruments:

Current Period	EUR %	USD %	JPY %	TL %
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey		0.75		5.26
Banks	1.71	2.75		11.59
Financial Assets at Fair Value through Profit/Loss	1.78	5.90		10.64
Money Market Placements	0.03			10.65
Financial Assets Available for Sale	3.56	4.41		9.15
Loans	4.15	5.60		13.78
Investments Held to Maturity	1.28	4.43		9.30
<b>Liabilities</b>				
Bank Deposits	0.52	1.89		10.03
Other Deposits	0.75	1.73	0.69	7.48
Money Market Funds	0.41	2.38		8.58
Miscellaneous Payables				
Debt Securities Issued <sup>(1)</sup>	0.39	5.24		8.60
Funds	0.25	0.50		6.00
Funds Provided from Other Financial Institutions	0.86	2.38		11.24

<sup>(1)</sup> Includes subordinated bonds which are classified on the balance sheet as subordinated loans.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

Prior Period	EUR %	USD %	JPY %	TL %
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey		0.48		3.77
Banks	1.59	1.66		12.54
Financial Assets at Fair Value through Profit/Loss	1.67	5.36		11.45
Money Market Placements	0.08			12.65
Financial Assets Available for Sale	4.08	4.33		9.20
Loans	4.23	5.00	3.33	13.33
Held to Maturity Investments	1.74	5.32		9.54
<b>Liabilities</b>				
Bank Deposits	0.92	1.56		11.22
Other Deposits	0.94	1.45	0.19	7.96
Money Market Funds	1.35	1.45		9.78
Miscellaneous Payables				
Debt Securities Issued <sup>(1)</sup>	0.87	5.02	0.87	10.92
Funds	0.50	0.50		6.00
Funds Provided from Other Financial Institutions	1.10	2.04		11.92

<sup>(1)</sup> Includes subordinated bonds which are classified on the balance sheet as subordinated loans.

## V. Explanations on Equity Shares Risk Arising from Banking Book

a. Related to the equity investments account practices about the associates and subsidiaries can be seen in the Section Three Note III.2.

b. Balance Sheet Value of Equity Investment, fair value, and for publicly traded, if the market value is different from the fair value comparison to the market price:

Share Certificate Investments	Comparison		
	Book Value	Fair Value	Market Value
<b>Quoted</b>			
<b>Stock Investment Group A</b>			
Subsidiaries			
Financial Subsidiaries			
Non-Financial Subsidiaries <sup>(1)</sup>	5,106,708		5,106,708
<b>Non-Quoted</b>			
Associate and Subsidiaries			
Financial Subsidiaries <sup>(2)</sup>	134,584		
Non-Financial Subsidiaries	41,490		
Subsidiaries			
Financial Subsidiaries			
Non-Financial Subsidiaries	725,107		

<sup>(1)</sup> Türkiye Şişe ve Cam Fabrikaları A.Ş.

<sup>(2)</sup> Includes subsidiaries which is accounted under equity accounted method.

c. Unrealized gains and losses on investment in stocks, revaluation increases with the amounts of main and additive capital:

Portfolio	Realized Gains/ losses During the period	Revaluation Increases		Unrealized Gains		
		Total	Including to the Capital Contribution	Total	Including in to the main capital	Including to the Capital Contribution
Private Equity Investments						
Shares Traded on a Stock Exchange				3,276,518	3,276,518	
Other Stocks						
<b>Total</b>				3,276,518	3,276,518	

d. Capital requirement as per equity shares:

Portfolio	Carrying Value	Total RWA	Minimum Capital Requirement <sup>(1)</sup>
Private Equity Investments			
Share Traded on a Stock Exchange	5,106,708	5,106,708	408,537
Other Stocks	901,181	1,103,057	88,245
<b>Total</b>	6,007,889	6,209,765	496,782

<sup>(1)</sup> The amount is calculated by using standard method within the scope of the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks".

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### VI. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio

Liquidity risk may occur as a result of funding long-term assets with short-term liabilities. Group's liquidity is managed by the Asset-Liability Management Committee in accordance with the business strategies, legal requirements, current market conditions and expectations regarding the economic and financial conjuncture.

The Group's principal source of funding is deposits. Although the average maturity of deposits is shorter than that of assets as a result of the market conditions, the Group's wide network of branches and stable core deposit base are its most important safeguards of funding. Additionally, the Bank borrows medium and long-term funds from institutions abroad. Concentration limits are generally used in deposit and non-deposit borrowings in order to prevent adverse effects of concentrations in the liquidity risk profile of the Group.

In order to meet the liquidity requirements that may arise from market fluctuations, considerable attention is paid to the need to preserve liquidity and efforts in this respect are supported by projections of Turkish Lira and Foreign Currency (FC) cash flows. The term structure of TL and FC deposits, their costs and amounts are monitored on a daily basis. During these studies historical events and future expectations are taken into account as well. Based upon cash flow projections, prices are differentiated for different maturities and measures are taken accordingly to meet liquidity requirements. Moreover, potential alternative sources of liquidity are determined to be used in case of extraordinary circumstances.

The liquidity risk exposure of the Bank has to be within the risk capacity limits which are prescribed by the legislation and the Bank's risk appetite defined in its business strategy. It is essential for the Bank to have an adequate level of unencumbered liquid asset stock which can be sold or pledged, in case a large amount of reduction in liquidity sources occurs. The level of liquid asset buffer is determined in accordance with the liquidity risk tolerance which is set by the Board of Directors. Asset-Liability Management Committee is responsible for monitoring the liquidity position, determining appropriate sources of funds and deciding the maturity structure in accordance with the limits which are set by the Board of Directors.

The Treasury Division is responsible for monitoring the liquidity risk, in accordance with the Asset and Liability Risk Policy limits, objectives set out in the business plan and the decisions taken at the meetings of Asset-Liability Management Committee. The Treasury Division is also responsible for making liquidity projections and taking necessary precautions to reduce liquidity risk, by using the results of stress testing and scenario analysis. Within this scope, Treasury Division is monitoring the Turkish Lira (TL) and foreign currency (FC) liquidity position instantly and prospectively based on the information provided from the branches, business units and IT infrastructure of the Bank. The assessment of long-term borrowing opportunities is carried out regularly in order to balance the cash inflows and outflows and to mitigate the liquidity risk. The Bank creates liquidity through repurchase agreements and secured borrowings based on the high quality liquid asset portfolio, through securitization and other structured finance products which are created from the asset pools like credit card receivables and retail loans.

The Bank applies liquidity stress tests to measure liquidity risk. These liquidity stress tests reveal the Bank's liquid assets' ability to cover cash outflows within one-month-horizon. Liquidity adequacy limits for TL and FC are determined by Board of Directors, based on the liquidity requirements and risk tolerance of the Bank. The liquidity risk is measured by the Risk Management Division and results are reported to the related executive functions, senior management and Board of Directors.

It is essential for the Bank to monitor the liquidity position and funding strategy continuously. In case of a liquidity crisis that may arise from unfavorable market conditions, extraordinary macroeconomic situations and other reasons which are beyond the control of the Bank, "Emergency Action and Funding Plan" is expected to be commissioned. In that case, aforementioned committees have to report the precautions taken and their results to the Board of Directors through Audit Committee.

The Bank's Foreign Currency (FC) and total (TL+FC) liquidity coverage ratio (LCR) averaged for the last three months are given below:

	Current Period	
	TL+FC	FC
31 October 2016	96.45	120.86
30 November 2016	90.98	111.63
31 December 2016	112.71	132.50
	Prior Period	
	TL+FC	FC
31 October 2015	108.48	188.80
30 November 2015	103.95	172.22
31 December 2015	103.52	165.47

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

The Group's Foreign Currency (FC) and total (TL+FC) liquidity coverage ratio (LCR) averaged for the last three months are given below:

Current Period	Total Unweighted Value		Total Weighted Value	
	TL+FC	FC	TL+FC	FC
<b>HIGH QUALITY LIQUID ASSETS</b>				
1	High Quality Liquid Assets		47,482,911	21,671,547
<b>CASH OUTFLOWS</b>				
2	Retail and Small Business Customers	122,051,016	55,444,101	10,622,495
3	Stable deposit	31,652,121		1,582,606
4	Less stable deposits	90,398,895	55,444,101	9,039,889
5	Unsecured wholesale funding	61,600,231	24,246,377	37,469,355
6	Operational deposits	2,546,728	5,212	636,682
7	Non-operational deposits	36,193,241	21,230,944	19,386,680
8	Other unsecured funding	22,860,262	3,010,221	17,445,993
9	Secured funding			203,440
10	Other cash outflows	33,965,170	24,266,521	33,965,170
11	Derivatives cash outflows and liquidity needs related to market valuation changes on derivatives or other transactions	33,965,170	24,266,521	33,965,170
12	Obligations related to structured financial products			
13	Commitments related to debts to financial markets and other off-balance sheet obligations			
14	Other revocable off-balance sheet commitments and contractual obligations	8,747,921	8,159,605	437,396
15	Other irrevocable or conditionally revocable off-balance sheet obligations	103,742,557	46,881,530	10,835,794
16	<b>TOTAL CASH OUTFLOWS</b>			<b>93,533,650</b>
<b>CASH INFLOWS</b>				
17	Secured lending	26,719		21,748
18	Unsecured lending	20,377,626	5,792,257	14,274,958
19	Other cash inflows	31,533,373	27,028,664	31,533,373
20	<b>TOTAL CASH INFLOWS</b>	<b>51,937,718</b>	<b>32,820,921</b>	<b>45,830,079</b>
			<b>Total Adjusted Value</b>	
21	<b>TOTAL HQLA STOCK</b>		<b>47,482,911</b>	<b>21,671,547</b>
22	<b>TOTAL NET CASH OUTFLOWS</b>		<b>47,703,571</b>	<b>17,913,052</b>
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>100.05</b>	<b>121.66</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

Prior Period	Total Unweighted Value		Total Weighted Value		
	TL+FC	FC	TL+FC	FC	
<b>HIGH QUALITY LIQUID ASSETS</b>					
1	High Quality Liquid Assets		43,326,320	26,669,481	
<b>CASH OUTFLOWS</b>					
2	Retail and Small Business Customers	107,978,390	51,566,237	8,445,904	4,190,012
3	Stable deposit	47,038,701	19,332,236	2,351,935	966,612
4	Less stable deposits	60,939,689	32,234,001	6,093,969	3,223,400
5	Unsecured wholesale funding	50,849,667	24,665,286	30,664,522	15,026,658
6	Operational deposits	2,316,765	112,004	579,191	28,001
7	Non-operational deposits	33,525,928	23,114,265	18,264,773	13,643,975
8	Other unsecured funding	15,006,974	1,439,017	11,820,558	1,354,682
9	Secured funding			150,814	40,875
10	Other cash outflows	31,203,039	21,195,631	31,203,039	21,195,631
11	Derivatives cash outflows and liquidity needs related to market valuation changes on derivatives or other transactions	31,203,039	21,195,631	31,203,039	21,195,631
12	Obligations related to structured financial products				
13	Commitments related to debts to financial markets and other off-balance sheet obligations				
14	Other revocable off-balance sheet commitments and contractual obligations	11,988,539	11,359,227	599,427	567,961
15	Other irrevocable or conditionally revocable off-balance sheet obligations	99,985,183	36,051,811	9,626,973	3,277,534
16	<b>TOTAL CASH OUTFLOWS</b>			<b>80,690,679</b>	<b>44,298,671</b>
<b>CASH INFLOWS</b>					
17	Secured lending	28,703	27,034	28,703	27,034
18	Unsecured lending	16,912,373	5,909,430	11,324,136	4,544,792
19	Other cash inflows	28,209,978	24,491,837	28,209,978	24,491,837
20	<b>TOTAL CASH INFLOWS</b>	<b>45,151,054</b>	<b>30,428,301</b>	<b>39,562,817</b>	<b>29,063,663</b>
			<b>Total Adjusted Value</b>		
21	<b>TOTAL HQLA STOCK</b>			<b>43,326,320</b>	<b>26,669,481</b>
22	<b>TOTAL NET CASH OUTFLOWS</b>			<b>41,127,862</b>	<b>15,235,008</b>
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>			<b>105.32</b>	<b>175.50</b>

With respect to prior period averages, an increase in both the average liquidity coverage ratio and total ratios have been observed for the fourth quarter of 2016. The increase in foreign currency liquidity coverage ratio is mainly originated from the increase in foreign currency denominated cash inflows and the total liquidity coverage ratio has increased due to the significant increase in the stock of high quality TL liquid assets. Total and foreign currency liquidity coverage ratios are currently far above the minimum level (70% and 50% respectively in 2016).

The Liquidity Coverage Ratio which has been introduced to ensure banks to preserve sufficient stock of high quality assets to meet their net cash outflows that may occur in the short term is calculated as per the Communiqué on "Measurement and Assessment of the Liquidity Coverage Ratio of Banks" published by BRSA. The ratio is directly affected by the level of unencumbered high quality assets which can be liquidated at any time and net cash inflows and outflows arising from the Bank's assets, liabilities and off-balance sheet transactions.

The Group's high quality liquid asset stock primarily consists of cash, the accounts held at CBRT and non-collateral government bonds which are issued by Turkish Treasury.

The Bank's principal source of funding is deposits. In terms of non-deposit borrowing, funds received from repurchase agreements, marketable securities issued and funds borrowed from financial institutions are among the most significant funding sources of the Bank.

In order to manage liquidity effectively, concentration of liquidity sources and usages should be avoided. Due to the strong and stable core deposit base of the Bank, deposits are received from a diversified customer portfolio. In addition, in order to provide diversification in liquidity sources and usages, liquidity concentration limits are used effectively. Total amount of funds borrowed from a single counterparty or a risk group is closely and instantaneously monitored, taking liquidity concentration limits into account. Cash flows of derivatives that will take place within 30 days are taken into account in calculation of liquidity coverage ratio. Cash outflows of derivatives that arise from margin obligations, are reflected to the results in accordance with the methodology articulated in the related legislation.

Liquidity risk of the Group, its foreign branches and subsidiaries that are to be consolidated are managed within the regulatory limits and in accordance with the group strategies. For the purposes of effectiveness and sustainability of liquidity management, funding sources of group companies and funding diversification opportunities in terms of markets, instruments and tenor are evaluated and liquidity position of the group companies are monitored continuously by the Parent Bank.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## Presentation of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Unallocated <sup>(1)</sup>	Total
<b>Current Period</b>								
<b>Assets</b>								
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	12,502,627	20,730,504						33,233,131
Banks	2,396,874	4,236,418	2,168,036	456,465				9,257,793
Financial Assets at Fair Value through Profit/Loss	358,797	757,137	679,578	1,015,818	478,484	145,930		3,435,744
Money Market Placements		403,876	62,962					466,838
Financial Assets Available for Sale	586,286	391,029	1,024,512	4,913,947	22,435,499	22,419,099		51,770,372
Loans <sup>(2)</sup>	20,059,291	19,023,870	16,849,937	53,591,216	89,827,822	27,669,703	1,259,380	228,281,219
Held to Maturity Investments		272,341	12,998	1,083,723	3,797,724	1,590,972		6,757,758
Other Assets	11,825,691	3,495,962	1,100,682	957,566	1,668,847	664,600	20,904,061	40,617,409
<b>Total Assets</b>	<b>47,729,566</b>	<b>49,311,137</b>	<b>21,898,705</b>	<b>62,018,735</b>	<b>118,208,376</b>	<b>52,490,304</b>	<b>22,163,441</b>	<b>373,820,264</b>
<b>Liabilities</b>								
Bank Deposits	2,730,701	2,256,237	1,152,411	712,690	198,828			7,050,867
Other Deposits	41,870,910	95,385,859	20,296,147	11,327,190	3,210,110	18,355		172,108,571
Funds Provided from Other Financial Institutions		2,956,816	4,433,851	17,902,600	15,782,989	11,089,823		52,166,079
Money Market Funds		22,847,240	417,833	899,727	809,203			24,974,003
Marketable Securities Issued <sup>(3)</sup>		1,870,910	3,230,258	4,548,955	16,894,669	7,045,905		33,590,697
Miscellaneous Payables	13,400,726	8,853,915	77,200	9,346	52,714			22,393,901
Other Liabilities <sup>(4)</sup>	51,311	2,427,475	272,631	373,996	230,657	57,647	58,122,429	61,536,146
<b>Total Liabilities</b>	<b>58,053,648</b>	<b>136,598,452</b>	<b>29,880,331</b>	<b>35,774,504</b>	<b>37,179,170</b>	<b>18,211,730</b>	<b>58,122,429</b>	<b>373,820,264</b>
<b>Liquidity Gap</b>	<b>(10,324,082)</b>	<b>(87,287,315)</b>	<b>(7,981,626)</b>	<b>26,244,231</b>	<b>81,029,206</b>	<b>34,278,574</b>	<b>(35,958,988)</b>	
<b>Net Off Balance Sheet Position</b>								
Derivative Financial Assets	2,431,011	32,162,678	5,943,603	10,959,576	20,589,084	13,608,243		85,694,195
Derivative Financial Liabilities	2,431,957	32,323,109	5,946,807	10,838,068	19,712,397	13,596,181		84,848,519
<b>Non-cash Loans</b>	<b>34,926,240</b>	<b>1,309,756</b>	<b>5,199,255</b>	<b>14,947,828</b>	<b>6,556,547</b>	<b>3,008,008</b>		<b>65,947,634</b>
<b>Prior Period</b>								
Total Assets	28,774,232	49,316,253	17,592,502	48,775,168	102,655,387	49,246,186	29,139,244	325,498,972
Total Liabilities	45,821,544	114,850,717	38,332,178	32,989,477	26,449,530	15,484,688	51,570,838	325,498,972
<b>Liquidity Gap</b>	<b>(17,047,312)</b>	<b>(65,534,464)</b>	<b>(20,739,676)</b>	<b>15,785,691</b>	<b>76,205,857</b>	<b>33,761,498</b>	<b>(22,431,594)</b>	
<b>Net Off Balance Sheet Position</b>								
Derivative Financial Assets		24,285,221	11,536,604	13,350,027	12,331,957	9,800,993		71,304,802
Derivative Financial Liabilities		24,265,523	11,496,110	13,467,483	12,150,473	9,798,559		71,178,148
<b>Non-cash Loans</b>	<b>24,200,508</b>	<b>2,062,359</b>	<b>4,824,420</b>	<b>12,567,506</b>	<b>6,757,164</b>	<b>2,500,308</b>		<b>52,912,265</b>

<sup>(1)</sup> Assets, such as Tangible Assets, Subsidiaries and Associates, Office Supply Inventory, Prepaid Expenses and Non-Performing Loans, which are required for banking operations and which cannot be converted into cash in short-term, other liabilities such as Provisions which are not considered as payables and Shareholders' Equity, are shown in 'Unallocated' column.

<sup>(2)</sup> Includes factoring receivables.

<sup>(3)</sup> The amount of TL 4,930,016 of includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

<sup>(4)</sup> The borrower funds are presented in "Up to 1 month" column in other liabilities.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

In compliance with the TFRS 7 "Financial Instruments: Disclosures", the following table indicates the maturities of the Group's major financial assets and liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of collections and payments without discounting the assets and liabilities. The interest to be collected from and paid to the related assets and liabilities is included in the following table. Adjustments column shows the items that may cause possible cash flows in the following periods. The values of the related assets and liabilities registered in balance sheet do not include these amounts.

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total	Adjustments (-)	Balance Sheet Value
<b>Assets</b>									
Financial Assets Held for Trading	358,797	63,154	138,407	236,191	357,845	77,346	1,231,740	137,762	1,093,978
Banks	2,396,874	4,140,183	2,607,755	136,368			9,281,180	23,387	9,257,793
Financial Assets Available for Sale	586,286	721,443	1,690,389	6,163,924	31,866,477	34,510,612	75,539,131	23,768,759	51,770,372
Loans <sup>(1)</sup>	20,059,291	19,926,626	18,446,224	62,741,748	109,247,601	33,128,133	263,549,623	36,527,783	227,021,840
Investments Held to Maturity		344,241	26,171	1,332,871	4,819,460	1,684,642	8,207,385	1,449,627	6,757,758
<b>Liabilities</b>									
Deposits	44,601,611	97,927,055	21,609,696	12,211,250	3,522,583	35,498	179,907,693	748,255	179,159,438
Funds Provided from Other Financial Institutions		3,454,433	4,700,993	18,664,924	17,331,644	11,790,290	55,942,284	3,776,205	52,166,079
Money Market Funds		22,862,286	420,026	937,563	847,633		25,067,508	93,505	24,974,003
Marketable Securities Issued (Net) <sup>(2)</sup>		2,065,366	3,106,630	5,984,519	18,363,062	9,845,429	39,365,006	5,774,309	33,590,697

<sup>(1)</sup> The balances include factoring receivables. Non-performing loans (Net) are not included.

<sup>(2)</sup> The amount of TL 4,930,016 of includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

Prior Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total	Adjustments (-)	Balance Sheet Value
<b>Assets</b>									
Financial Assets Held for Trading	314,186	36,755	105,482	237,418	364,128	96,501	1,154,470	103,020	1,051,450
Banks	1,336,596	3,020,273	1,822,644	238,929	23,161	1,139	6,442,742	66,648	6,376,094
Financial Assets Available for Sale	627,463	767,280	777,099	3,523,920	29,469,152	33,748,183	68,913,097	21,903,755	47,009,342
Loans <sup>(1)</sup>	17,652,815	17,634,325	16,222,813	53,054,549	92,505,842	27,180,478	224,250,822	29,390,085	194,860,737
Investments Held to Maturity		142,109	18,759	394,840	1,688,932	3,637,075	5,881,715	1,384,298	4,497,417
<b>Liabilities</b>									
Deposits	35,239,348	77,497,482	28,165,746	10,789,960	3,160,813	27,985	154,881,334	680,044	154,201,290
Funds Provided from Other Financial Institutions		3,114,001	4,118,921	17,647,406	13,385,604	9,906,115	48,172,047	2,557,677	45,614,370
Money Market Funds		22,443,520	684,271	474,973	1,113,033		24,715,797	91,364	24,624,433
Marketable Securities Issued (Net) <sup>(2)</sup>		2,567,449	5,149,813	5,487,387	12,413,121	6,827,152	32,444,922	4,318,231	28,126,691

<sup>(1)</sup> The balances include factoring receivables. Non-performing loans (Net) are not included.

<sup>(2)</sup> The amount of TL 4,047,133 of includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

The following table shows the remaining maturities of non-cash loans of the Group.

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Letters of Credit	2,775,245	544,011	3,024,791	6,084,494	523,326	31,551	12,983,418
Letters of Guarantee	31,730,257	627,420	1,642,774	7,197,170	5,817,017	1,964,081	48,978,719
Acceptances	161,170	91,254	498,056	1,623,710	205,554		2,579,744
Other	259,568	47,071	33,634	42,454	10,650	1,012,376	1,405,753
<b>Total</b>	<b>34,926,240</b>	<b>1,309,756</b>	<b>5,199,255</b>	<b>14,947,828</b>	<b>6,556,547</b>	<b>3,008,008</b>	<b>65,947,634</b>
Prior Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Letters of Credit	2,189,734	1,310,863	2,586,520	4,440,829	335,555	42,993	10,906,494
Letters of Guarantee	21,956,727	475,332	1,868,183	7,569,439	6,363,177	1,608,750	39,841,608
Acceptances	44,076	179,713	166,664	516,997	48,130		955,580
Other	9,971	96,451	203,053	40,241	10,302	848,565	1,208,583
<b>Total</b>	<b>24,200,508</b>	<b>2,062,359</b>	<b>4,824,420</b>	<b>12,567,506</b>	<b>6,757,164</b>	<b>2,500,308</b>	<b>52,912,265</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

The following table shows the remaining maturities of derivative financial assets and liabilities of the Group.

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Forwards Contracts - Buy	5,786,664	1,563,538	1,661,352	503,609	2,268,234	11,783,397
Forwards Contracts - Sell	5,768,862	1,560,744	1,679,599	523,516	2,191,061	11,723,782
Swaps Contracts - Buy	25,316,150	3,209,066	5,335,239	15,979,510	13,224,342	63,064,307
Swaps Contracts - Sell	23,796,095	3,254,436	5,211,865	15,083,594	13,212,279	60,558,269
Futures Transactions - Buy	4,588	607		280		5,475
Futures Transactions - Sell	4,587	606		281		5,474
Options - Call	1,060,270	1,459,673	2,755,882	770,216		6,046,041
Options - Put	1,074,962	1,460,896	2,736,409	770,216		6,042,483
Other	2,560,796	196,171	185,068	219,978	403,673	3,565,686
<b>Total</b>	<b>65,372,974</b>	<b>12,705,737</b>	<b>19,565,414</b>	<b>33,851,200</b>	<b>31,299,589</b>	<b>162,794,914</b>

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Forwards Contracts - Buy	3,281,701	948,588	1,866,822	455,587		6,552,698
Forwards Contracts - Sell	3,293,414	948,089	1,878,124	484,706		6,604,333
Swaps Contracts - Buy	19,629,507	8,290,591	8,410,839	11,237,224	9,248,753	56,816,914
Swaps Contracts - Sell	16,674,108	8,554,597	8,311,207	11,026,621	9,246,319	53,812,852
Futures Transactions - Buy	118	651				769
Futures Transactions - Sell	118	652				770
Options - Call	999,305	2,003,367	2,624,009	450,580	552,240	6,629,501
Options - Put	957,320	1,893,373	2,429,839	450,580	552,240	6,283,352
Other	3,715,153	392,806	1,296,670	377,132		5,781,761
<b>Total</b>	<b>48,550,744</b>	<b>23,032,714</b>	<b>26,817,510</b>	<b>24,482,430</b>	<b>19,599,552</b>	<b>142,482,950</b>

## VII. Explanations on Leverage Ratio

**1. Explanations on Differences Between Current and Prior Years' As financial statements prepared in accordance with Article No 5 of Clause No 6 in the Communiqué on Preparation of Consolidated Financial Statements of Banks dated 31.12.2016 are not published yet Leverage Ratios**

The Bank's consolidated leverage ratio is 7.78% calculated in accordance with the principles of the "Regulation on Measurement and Evaluation of Banks' Leverage Level" (31 December 2015:8.15%). According to Regulation, the minimum leverage ratio is 3%.

**2. Summary Comparison Table Related to Total Amount of Asset and Risk Situated in The Consolidated Financial Statements Prepared in Accordance with IAS**

	Current Period	Prior Period
Summary Comparison Table Related to Total Amount of Asset and Risk Situated in The Consolidated Financial Statements Prepared in Accordance with IAS <sup>(1)</sup>	339,395,788 <sup>(1)</sup>	323,731,022
The difference between Total Amount of Asset in the Consolidated Financial Statements Prepared in Accordance with TAS and the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(1)</sup>	(2,424,959) <sup>(1)</sup>	(1,767,950)
The difference between total amount and total risk amount of derivative financial instruments with credit derivative in the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(2)</sup>	(1,095,681)	(926,395)
The difference between total amount and total risk amount of risk investment securities or commodity collateral financing transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(2)</sup>	16,256,501	16,795,730
The difference between total amount and total risk amount of off-balance sheet transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(2)</sup>	11,019,132	10,520,442
The other differences between amount of assets and risk in the Communiqué on Preparation of Consolidated Financial Statements of Banks <sup>(2)</sup>	2,090,579	1,664,794
<b>Total Exposures <sup>(2)</sup></b>	<b>489,373,229</b>	<b>434,732,094</b>

<sup>(1)</sup> Consolidated financial statements are prepared based on Article No 5 of Clause No 6 in the Communiqué on Preparation of Consolidated Financial Statements of Banks. As of reporting date, in the cause of consolidated financial statements is not published yet, the amounts are represented in the table as of 30 June 2016 and 31 December 2016.

<sup>(2)</sup> The amounts in the table represents the average of three months.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### 3. Explanations on consolidated leverage ratio

	Current Period <sup>(1)</sup>	Prior Period <sup>(1)</sup>
<b>On-Balance Sheet Items</b>		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	365,170,856	324,208,192
Asset amounts deducted in determining Basel III Tier 1 capital	(664,023)	(623,023)
The total amount of risk on-balance sheet exposures	364,506,833	323,585,169
<b>Derivative exposures and credit derivatives</b>		
Replacement cost associated with derivative financial instruments and credit derivatives	2,090,579	1,664,794
The potential amount of credit risk with derivative financial instruments and credit derivatives	1,093,313	924,992
The total amount of risk on derivative financial instruments with credit derivatives	3,183,892	2,589,786
<b>Investment securities or commodity collateral financing transactions</b>		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	3,620,924	4,187,584
Risk amount of exchange brokerage operations		
The total amount of risk investment securities or commodity collateral financing transactions	3,620,924	4,187,584
<b>Off -Balance Sheet Items</b>		
Gross notional amount for off-balance sheet items	128,960,804	114,813,709
Adjustments for conversion to credit equivalent amounts	(10,899,224)	(10,444,154)
The total amount of risk for off-balance sheet items	118,061,580	104,369,555
<b>Capital and Total Exposures</b>		
Tier 1 Capital	38,048,006	35,408,706
Total Exposures	489,373,229	434,732,094
<b>Leverage Ratio</b>		
Leverage Ratio	7.78	8.15

<sup>(1)</sup> Three-month average of the amounts in Leverage Ratio table.

#### VIII. Explanations on Other Price Risk

The Group is exposed to equity securities price risk due to its investments in companies being traded on the BIST. Shares are being acquired for investment purposes.

The Bank's sensitivity to equity price risk at the reporting date an analysis was conducted to measure. In the analysis, with the assumption of all other variables were held constant (stock prices) are 10% higher or lower and is assumed that. According to this assumption in equity securities revaluation reserve account TL 510,671 (31 December 2015: TL 394,254) increase/decrease is expected to be. This, in fact, the fair value of publicly traded subsidiaries and associates the increase/decrease is due. On the other hand, according to the analysis carried out by similar assumptions, held for trading securities that are traded in an active market (stock exchange) may have an impact on profit (increase/decrease) TL 14,140.

#### IX. Explanations on Presentation of Assets and Liabilities at Fair Value

##### 1. Information on fair values of financial assets and liabilities

	Book Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
<b>Financial Assets</b>				
Money Market Placements	466,838	1,308,203	466,838	1,308,203
Banks	9,257,793	6,376,094	9,313,249	6,415,212
Financial Assets Available for Sale	51,770,372	47,009,342	51,770,372	47,009,342
Investments Held to Maturity	6,757,758	4,497,417	6,617,826	4,414,342
Loans <sup>(1)</sup>	228,281,219	195,889,105	228,526,174	194,258,612
<b>Financial Liabilities</b>				
Banks Deposits	7,050,867	7,922,035	7,033,373	7,905,760
Other Deposits	172,108,571	146,279,255	172,200,988	146,452,688
Funds Provided from Other Financial Institutions	52,166,079	45,614,370	51,691,777	45,213,483
Marketable Securities Issued <sup>(2)</sup>	33,590,697	28,126,691	32,947,562	28,010,826
Miscellaneous Payables	22,399,218	17,872,300	22,399,218	17,872,300

<sup>(1)</sup> Includes factoring receivables.

<sup>(2)</sup> Secondary subordinated issued bonds having credit quality, which are classified on the balance sheet under the subordinated loans, amounting to TL 4,930,016 are also included.(31 December 2015: TL 4,047,133)

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

Fair values of investments held to maturity and the marketable securities issued are determined by using the market prices; in cases where market prices cannot be measured, quoted market prices of other securities that are subject to amortization having similar interest, maturity and other conditions are taken as the basis for the fair value determination.

Market prices are taken into account in determining the fair values of the securities available for sale. When the prices cannot be measured in an active market, fair values are not deemed to be reliably determined and amortized cost, calculated by the internal rate of return method, are taken into account as the fair values.

Fair values of banks, loans granted, deposits and funds borrowed from other financial institutions are calculated by discounting the amounts in each maturity bracket formed according to repricing periods, using the rate corresponding to relevant maturity bracket in the discount curves based on current market conditions.

## 2. Information on fair value measurements recognized in the financial statements

IFRS 13 "Fair Value Measurement" requires the items, which are recognized in the balance sheet at their fair values to be shown in the notes by being classified within a range. According to this, the related financial instruments are classified into three levels in such a way that they will express the significance of the data used in fair value measurements. At the first level, there are financial instruments, whose fair values are determined according to quoted prices in active markets for identical assets or liabilities, at the second level, there are financial instruments, whose fair values are determined by directly or indirectly observable market data, and at the third level, there are financial instruments, whose fair values are determined by the data, which are not based on observable market data. The financial assets, which are recognized in the consolidated financial statements at their fair values, are shown below as classified according to the aforementioned principles of ranking.

Current Period	Level 1	Level 2	Level 3
<b>Financial Assets at Fair Value Through Profit and Loss</b>			
Debt Securities	728,205	6,956	2
Equity Securities	141,396		
Derivative Financial Assets Held for Trading		2,341,766	
Other	17	217,402	
<b>Financial Assets Available-for-Sale</b>			
Debt Securities	38,317,732	11,906,949	959,406
Equity Securities <sup>(1)</sup>	12,339	108,470	
Other		410,982	
<b>Investments in Subsidiaries and Associates <sup>(2)</sup></b>	5,106,708		
<b>Derivative Financial Assets Held For Hedging</b>		272	
<b>Derivative Financial Liabilities Held For Trading</b>		1,305,085	
<b>Derivative Financial Liabilities Held For Hedging</b>		51,433	

<sup>(1)</sup> The equity securities (TL 54,495) under the financial assets available-for-sale are shown in the financial statements at acquisition cost and the related securities are not shown in this table since they are not traded in an active market.

<sup>(2)</sup> Unlisted investments in associates and subsidiaries are recognized at acquisition cost within the framework of TAS 27, these companies are not presented in table.

Prior Period	Level 1	Level 2	Level 3
<b>Financial Assets at Fair Value Through Profit and Loss</b>			
Debt Securities	660,448	40,527	36,290
Equity Securities	79,488		
Derivative Financial Assets Held for Trading		1,451,999	
Other	1,670	233,027	
<b>Financial Assets Available-for-Sale</b>			
Debt Securities	32,515,632	10,087,978	3,778,269
Equity Securities <sup>(1)</sup>	28,764	10,120	255,353
Other		278,303	
<b>Investments in Subsidiaries and Associates <sup>(2)</sup></b>	3,942,544		
<b>Derivative Financial Assets Held For Hedging</b>		4,093	
<b>Derivative Financial Liabilities Held For Trading</b>		1,206,148	
<b>Derivative Financial Liabilities Held For Hedging</b>		5,799	

<sup>(1)</sup> The equity securities (TL 54,923) under the financial assets available-for-sale are shown in the financial statements at acquisition cost and the related securities are not shown in this table, since they are not traded in an active market.

<sup>(2)</sup> Unlisted investments in associates and subsidiaries are recognized at acquisition cost within the framework of TAS 27, these companies are not presented in the table.

The movement table of financial assets at level 3 is given below:

	Current Period	Prior Period
<b>Balance at the Beginning of the Period</b>	4,069,912	745,673
Purchases		39,716
Redemption or Sales	(290,448)	(58,307)
Valuation Difference	165,180	401,811
Transfers <sup>(1)</sup>	(2,985,236)	2,941,019
<b>Balance at the end of the Period</b>	<b>959,408</b>	<b>4,069,912</b>

<sup>(1)</sup> The balance in the current period is composed of securities which are not traded in the prior period and followed up with market value in the current period.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

In the financial statements of the Bank and its consolidated subsidiaries, real estates which are presented at fair value are classified at level 3 and investment properties are classified in level 2 and 3.

#### X. Explanations on Transactions Carried Out on Behalf of Third Parties and Fiduciary Transactions

The Group gives trading, custody, fund management services in the name and on the account of its customers. The Group has no fiduciary transactions.

#### XI. Explanations on Risk Management Objectives and Policies

Explanations according to “*Communiqué on Public Disclosures about Risk Management*” published on the Official Gazette No.29511 dated 23 October 2015 are included below. The Bank uses standardised approach for calculation of capital charge for credit risk, therefore explanations about internal ratings-based approach are not included.

##### a. Explanations on Risk Management and Risk Weighted Amounts

###### a.1 Risk Management Approach of the Group

The Group is exposed to financial and non-financial risks which are required to be analyzed, monitored and reported within specific risk management principles and with the perspective of Group risk management. The risk management process is organized within the framework of risk management and serves the creation of a common risk culture in corporate level; which brings “corporate governance” to forefront, the independence of the internal audit and monitoring units from the business units that undertake risks is established risk is defined in accordance with international regulations and in this context measurement, analysis, monitoring, reporting and control functions are carried.

Risk management process and the functions involved in the process is one of the primary responsibilities of the Board of Directors. The Risk Committee operates to prepare the Group's risk management strategies and policies, submit them to the Board of Directors for approval and monitor the implementations. Evaluating the capital adequacy and observing the active use of results in planning and decision making processes, establishing and monitoring limits related to main risks, monitoring the activities of risk management (determining, defining, measuring, evaluating and managing risk) and monitoring results and methods in measuring risk are also under their authority and responsibility of the Committee. Committee reports activity results to the Board of Directors through Audit Committee.

The Risk Management Department, which operates under the Parent Bank's Board of Directors has been organized as Asset-Liability Management Risk Unit, Credit Risk and Economic Capital Unit, Operational Risk and Associate Risk Unit and Validation Unit.

The Group's risk management process is carried out within the framework of risk policies which are issued by the Board of the Directors by taking the recommendations of the Risk Management Department into account and which include the written standards that are implemented by the business units. These policies which are entered into force in line with the international practices are general standards which contain organization and scope of the risk management function, risk measurement policies, duties and responsibilities of the risk management group, procedures for determining risk limits, ways to eliminate limit violations, compulsory approvals and confirmations to be given in a variety of events and situations.

In the aforementioned risk policies, the Group's risk appetite framework is defined as a set of approaches that determine the risk capacity, the risk appetite, the risk tolerance and that include the policies, procedures, controls and systems for reporting and monitoring of the limits set for the Group's risk profile and the indicators in the framework. The Group's risk appetite framework, which is formed in accordance with the above-mentioned factors and entered into force with the Board of Directors approval, includes indicators that are aligned with the business plan, the strategic programme, capital and remuneration planning and comparable on a business unit level to the extent possible. The compliance to the limits within the framework is periodically monitored and the realization of the risk appetite indicators are reported to the Risk Committee and the Boards on a monthly basis.

In order to build a strong corporate culture that has a risk management perspective, the Group has policies, processes, systems and a control system that is integrated with the risk management system. All employees of the Group essentially perform their duties in a responsible manner that aims to develop controls to reduce or eliminate the probability of the Group to incur losses related to the operational risks. In the process risk analysis studies, risks and the related controls are evaluated together with employees performing the relevant process in a holistic approach. Procedures to be followed in case of a risk threshold breach and risk definitions are given in the risk politics. Code of conducts, operation manuals, the sharing of duties between business units and risk units are announced to staff.

The risk reports that analyse the results reached by the Parent Bank and the comprehensive risk assessment and comparison of these results with a risk management perspective are periodically submitted to the Risk Committee and to the Board through the Audit Committee. The content of the above mentioned reports could be summarised as follows:

- Capital adequacy ratio, the progression of the components of this ratio and the issues that affect the aforementioned ratio,
- Monitoring the compliance status of the limits set by the Board of Directors as a part of the risk appetite framework and based on the components of the main risk types,
- In addition to the assessment of the loan portfolio on the basis of counterparties and loan types, monitoring of the portfolio as a whole according to parameters such as maturity, sector, geography, risk ratings, arrears, defaults,
- Measuring the assets and liabilities management risk, and reporting of measurement results,
- Monitoring of all risks assessed in the context of operational risk, loss events that occurred in the Bank caused by operational risks and the risk indicators,
- Testing the measurement results in terms of completeness and reliability,
- Analysing the level of risk indicators under various stress scenarios,
- Examining various concentration indicators and the course followed by these indicators,

As per the communique on “Bank's Internal Systems and Internal Capital Adequacy and Assessment Process” and “Guidelines for Stress Testing of Banks to Use in Capital and Liquidity Planning”, stress tests are conducted for the entire risks that the Group is exposed to and on the basis of significant risk categories. As a part of the holistic stress tests, risk appetite, capital planning, strategic plan and budget, action plans for emergencies and unexpected situations related to miscellaneous risks and other issues considered as significant are taken into consideration. In the above-mentioned stress tests, the methods that form the basis of regulatory reporting (standard method for credit and market risk, basic indicator method for operational risk) are used. On the other hand, in the stress tests for individual risk types the most advanced approaches used for risk measurement in the Parent Bank are leveraged.

In the stress tests, both the first pillar risks (credit risk, market risk, operational risk) in scope of the regulatory framework and all the other risks that the Group is exposed to independent of the regulatory framework are taken into account in a holistic perspective. In determining the course of capital adequacy under various scenarios during the planning horizon, the actions that the Group will take in case of stress conditions and the impact of the diversified growth strategies of business units on the capital adequacy and the balance sheet are considered.

The scope and content of the Parent Bank's risk management system in terms of the main risk types are listed below. Risk mitigation strategies and processes for the assessment of their effectiveness are given in Fourth Section II No. “Explanations on Credit Risk” under the Fourth Chapter XI-f.1 notes. No. “The Public Disclosure of Qualitative Information Related to the Market Risk” mentioned in the section.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş. Notes to the Consolidated Financial Statements For the Year Ended 31 December 2016

### Credit risk

Credit risk is defined as the risk of the failure to comply with the requirements or failing to fulfill its obligations partially or totally of the counter side of the transaction contract with the Parent Bank. The methodology and responsibilities of the credit risk management, controlling and monitoring and the framework of credit risk limitations specified with the credit risk policy.

The Bank defines measures and manages credit risk of the all products and activities. Board of Directors review the Parent Bank's credit risk policies and credit risk strategy on an annual basis as a minimum. Key Management is responsible for the implementation of credit risk policies which are approved by Board of Directors.

As a result of loans and credit risks analysis all findings are reported to Board of Directors and Key Management on a regular basis. In addition to transaction and company based credit risk assessment process, monitoring of credit risk also refers to an approach with monitoring and managing the credit as a whole maturity, sector, security, geography, currency, credit type and credit rating.

In the Parent Bank's credit risk management, along the limits as required by legal regulations, the Parent Bank utilizes the risk limits to undertake the maximum credit risk within risk groups or sectors that the Board of Directors determines. These limits are determined such a way that prevents risk concentration on particular sectors. Excess risk limits up to legal requirements and boundaries limits are considered as an exception. The Board of Directors has the authority in exception process. The results of the control of risk limits and the evaluations of these limits are presented by Internal Audit and Risk Management Group to Key Management and Board of Directors.

The Bank uses credit decision support systems which are created for the purpose of credit risk management, lending decisions, controlling the credit process and credit provisioning. The consistency of the credit decision support systems with the structure of the Parent Bank's activities, size and complexity is examined continuously by internal systems. Credit decision support systems contain the Risk Committee assessment and approval of Board of Directors.

### Asset and Liability Management Risk

Asset-liability management risk defined as the risk of Group's incurring loss due to managing all financial risks that are inflicted from the assets, liabilities and off-balance sheet transactions, ineffectively. Trading book portfolio's market risk, structural interest rate risk and liquidity risk of the banking portfolio; are considered within the scope of the asset liability management.

Complying the established risk limits and being at the limits that stipulated by the legislation are the primary priority of Asset-liability management risk. Risk limits are determined by the Board of Directors by taking into consideration of the Group's liquidity, target income level and general expectations about changes in risk factors.

Board of Directors and the Audit Committee are responsible for following the Group's capital is used optimally; for this purpose, checking the status against risk limits and providing the necessary actions are taken.

Asset and Liability Management Committee is responsible for managing the Asset and Liability risk within the framework of operating principles that are involved in the risk appetite and risk limits are set by the Board of Directors in accordance with the policy statement.

Asset and liability management processes and compliance with the provisions of the policy are controlled and audited by the internal audit system. The execution of the audit, reporting the audit results, action plans for the elimination of errors and gaps identified as a result of inspections regarding the fulfillment of the principles, are determined by the Board of Directors.

### Operational Risk

Operational risk is defined as "the probability of loss due to the inadequate or failed internal processes, people, systems, external factors or legal risks". All risks except financial risks are considered within the scope of operational risk. Studies consisted and are formed of occur by execution of identification, definition, measurement, analysis, monitoring of operational risk, providing and reporting the necessary control related to monitoring the progress of our country and the world, the development of techniques and methods, necessary legal reporting, notification and conduct of follow-up transactions. Studies on the subject are conducted by the Department of Risk Management.

Operational risks that arise due to the activities are defined in "Bank Risk Catalogue" and classified in respect of species. Bank Risk Catalogue is kind of the fundamental document that used for identification and classification of all at the risk that may be encountered. It is updated in line with the changes in the nature of the processes and activities.

Qualitative and quantitative methods are used in a combination for measurement and evaluation of the operational risks. In this process, information use that obtained from "Impact-Probability Analysis", "Missing Event Data Analysis", "Risk Indicators" methods. Methods prescribed by legal regulations are applied as minimum in determining the capital requirement level for the operating risk.

All risks are assessed in the context of operational risk, loss events and the risk indicators same as operational risks that occurred in the Parent Bank, are monitored on a regular basis by the Department of Risk Management and reported periodically to the Risk Committee and the Board of Directors.

### Validation Activities

Risk measurement models are validated at least once a year under international standards. The performance and soundness of the models are evaluated by the validation unit by statistical methods, the compliance of the processes applied within the scope of the model with the related laws, communiqués and regulations are analyzed, and the appropriateness of the data quality and IT applications used in the models is monitored. The results of the validation activities are reported to the Risk Committee and the Board of Directors.

### Subsidiaries Risk Operations

Corporations within the Bank's consolidated risk policy, in terms of their own business lines, measure, evaluate and monitor risks, establish risk limits. Risk limits are approved by their own Board of Directors. Risk levels are reported to the Bank's Risk Committee within the periods set by the Bank, to monitor risk levels on consolidated basis. The Bank's Risk Committee, assesses the risk levels and report the results to the Board of the Directors of the Bank.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### a.2. General Information on Risk Management and Risk Weighted Amounts

##### Overview of Risk Weighted Amounts:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
Credit risk (excluding counterparty credit risk) (CCR) <sup>(1)</sup>	277,279,825	244,046,944	22,182,386
Of which standardised approach (SA)	277,279,825	244,046,944	22,182,386
Of which internal rating-based (IRB) approach			
Counterparty credit risk	4,687,624	1,702,804	375,010
Of which standardised approach for counterparty credit risk (SA-CCR)	4,687,624	1,702,804	375,010
Of which internal model method (IMM)			
Equity positions in banking book under basic risk weighting or internal rating-based approach			
Equity investments in funds - look-through approach <sup>(2)</sup>	360,177		28,814
Equity investments in funds - mandate-based approach			
Equity investments in funds - 1250% weighted risk approach			
Settlement risk	7,037		563
Securitization positions in banking accounts			
Of which IRB ratings-based approach (RBA)			
Of which IRB Supervisory formula approach (SFA)			
Of which SA/simplified supervisory formula approach (SSFA)			
Market risk	9,051,900	9,282,275	724,152
Of which standardised approach (SA)	9,051,900	9,282,275	724,152
Of which internal model approaches (IMM)			
Operational Risk	21,266,313	19,117,210	1,701,305
Of which Basic Indicator Approach	21,266,313	19,117,210	1,701,305
Of which Standardised approach (SA)			
Of which Advanced measurement approach			
The amounts below the thresholds for deduction from capital (subject to a 250% risk weight)	1,815,670	1,795,253	145,254
Floor adjustment			
<b>Total</b>	<b>314,468,546</b>	<b>275,944,486</b>	<b>25,157,484</b>

<sup>(1)</sup> Equity investments in funds, settlement risk and the amounts below the thresholds for deduction from capital are not included.

<sup>(2)</sup> Amounts related to equity investments in funds have been first calculated by using look-through approach in accordance with the regulation which effectiveness date is March 2016. Accordingly 31 December 2015 amounts are not presented for related item.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## b. Linkages Between Financial Statements and Risk Amounts

## b.1 Differences and linkage between scopes of accounting consolidation and regulated consolidation

## Differences and linkage between scopes of accounting consolidation and regulated consolidation:

	Carrying values in financial statements prepared as per TAS <sup>(1)</sup>	Carrying values in consolidated financial statements prepared as per TAS but in compliance with the communiqué "Preparation of Consolidated Financial Statements" <sup>(2)</sup>	Carrying values of items in accordance with Turkish Accounting Standards <sup>(2)</sup>				Not subject to capital requirements or subject to deduction from capital
			Subject to credit risk	Subject to counterparty credit risk	Securitization Positions	Subject to market risk <sup>(3)</sup>	
<b>Assets</b>							
Cash and CBRT	33,706,541	33,233,131	33,233,131				
Financial Assets Held for Trading	2,470,153	3,435,744		2,341,766		1,093,978	
Financial Assets Held for Trading	1,034,840	1,093,978				1,093,978	
Derivative Financial Assets Held for Trading	1,435,313	2,341,766		2,341,766			
Bank and Money Market Placements	8,807,651	9,724,631	9,710,217	14,414			
Financial Assets Available-for-Sale	50,836,255	51,770,372	51,647,083			123,289	
Loans, Factoring Receivables and Lease Receivables	203,288,191	232,075,583	232,075,583				
Investment Held-to-Maturity	4,740,219	6,757,758	6,757,758				
Investment in Associates, Subsidiaries and Joint-Ventures	674,401	6,010,149	6,010,149				
Derivative Financial Assets Held for Risk Management	126,227	272		272			
Tangible Assets	13,958,553	5,861,299	5,861,299				
Intangible Assets	699,853	579,483	579,483				
Investment Properties	3,559,000	3,373,451	3,373,451				
Tax Asset	1,153,020	637,605	637,605				
Assets Held for Sale and Discontinued Operations	72,387	106,814	106,814				
Other Assets	15,303,337	20,253,972	19,541,538				712,434
<b>Total Assets</b>	<b>339,395,788</b>	<b>373,820,264</b>	<b>317,887,028</b>	<b>2,356,452</b>		<b>1,217,267</b>	<b>712,434</b>
<b>Liabilities</b>							
Deposits	161,482,359	179,159,438					
Derivative Financial Liabilities Held for Trading	1,562,745	1,305,085					
Funds Borrowed	48,443,982	52,166,079		4,711,448			
Money Market Funds	23,257,763	24,974,003		18,013,300			
Marketable Securities Issued	25,577,397	28,660,681					
Other Liabilities	14,118,948	25,409,461					
Derivative Financial Liabilities Held for Risk Management	9,467	51,433					
Provisions	11,946,676	14,918,935					
Tax Liability	1,031,451	518,271					
Subordinated Debts	4,149,833	4,930,016					
Shareholders' Equity	47,815,167	41,726,862					
<b>Total Liabilities</b>	<b>339,395,788</b>	<b>373,820,264</b>		<b>22,724,748</b>			

<sup>(1)</sup> 30 June 2016 amounts are represented, as financial statements prepared in accordance with Article No 5 of Clause No 6 in the Communiqué on Preparation of Consolidated Financial Statements of Banks dated 31.12.2016 are not published yet

<sup>(2)</sup> Financial statements balances are represented as of 31 December 2016.

<sup>(3)</sup> The specific risk involved in the market risk includes the amounts assessed in accordance with TAS.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### b.2 The main sources of the differences between the risk amounts and the amounts assessed in accordance with TAS in the financial statements

	Total	Credit Risk	Counterparty credit risk	Securitization Position	Market risk <sup>(3)</sup>
Asset carrying value amount under scope of regulatory consolidation	373,820,264	369,534,112		2,341,766	1,217,267
Liabilities carrying value amount under regulatory scope of consolidation				(22,724,748)	
Total net amount under regulatory scope of consolidation	373,820,264	369,534,112		25,066,514	1,217,267
Off-balance sheet amounts	224,924,077	46,011,786		3,505,926	
Repurchase Transactions Valuation Adjustments <sup>(1)</sup>				3,709,440	
Differences in valuations					
Differences due to different netting rules					
Differences due to consideration of provisions					
Differences due to prudential filters					
Differences due to risk mitigation <sup>(2)</sup>		(9,497,210)		(69,654)	
<b>Risk Amounts</b>		<b>406,048,688</b>		<b>7,145,712</b>	<b>1,217,267</b>

<sup>(1)</sup> Counterparty credit risk amount for repurchase transactions in accordance with the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks".

<sup>(2)</sup> The source of the difference is the collateral for receivables under credit risk mitigation in the calculation of capital adequacy.

<sup>(3)</sup> Represents the valued amounts subject to specific risk within market risk in accordance with TAS.

The differences between financial statements resulting from legal consolidation and the ones resulting from accounting consolidation are mainly due to the differences in the scope of companies included in consolidation. Legal consolidation only includes partnerships that are in the form of credit institutions or financial institutions in accordance with Article No 5 of Clause No 1 in the "Communiqué on Preparation of Consolidated Financial Statements of Banks" while accounting consolidation includes all partnerships regardless of them being in the form of credit institutions or financial institutions in accordance with Article No 5 of Clause No 6 in the same communiqué.

Bank using the valuation methodology are mainly based on data observed may in accordance with TFRS 13 aims to use methods that measure the fair value. In this context, securities qualification reality in the fair value measurement of financial assets in the transaction prices, quotes, set by the CBRT and as the price published in the Official Gazette as are used also necessary from internal pricing models. As for the derivative transactions interest rates, yield curves, foreign exchange, the basis of valuation models using market data such as volatility curves, valuation service is also available from third parties.

The market prices used to value the scope of the independent price verification process, data and/or model inputs for accuracy is regularly subjected to control, as well as compliance of the results provided by the pricing services obtained from third parties with respect to certain ranges tested.

#### c. Explanations on Credit Risk

##### c.1. Information on Credit Risk

##### c.1.1. General Qualitative Information on Credit risk

Relevant information is given in the footnotes below Fourth Section "Explanations on Credit Risk" and the footnote numbered XI-a.1. in Fourth Section.

##### c.1.2. Credit Quality of Assets:

	Gross carrying value in financial statements prepared in accordance with Turkish Accounting Standards (TAS)		Allowances/amortization and impairments	Net Values
	Defaulted	Non-defaulted		
Loans	5,273,481	224,036,283	4,014,102	225,295,662
Debt Securities		56,335,866		56,335,866
Off-balance sheet exposures	298,489	119,023,068	120,894	119,200,663
<b>Total</b>	<b>5,571,970</b>	<b>399,395,217</b>	<b>4,134,996</b>	<b>400,832,191</b>

##### c.1.3. Changes in Stock of Default Loans and Debt Securities <sup>(1)</sup>:

<b>Defaulted loans and debt securities at end of the previous reporting period</b>	3,920,231
Loans and debt securities that have defaulted since the last reporting period	3,378,959
Receivables back to non-defaulted status	(113,641)
Amounts written off	(408,410)
Other Changes	(1,503,658)
<b>Defaulted loans and debt securities at end of the reporting period</b>	<b>5,273,481</b>

<sup>(1)</sup> Indemnified non-cash loans of the firms which are followed under "Non-performing Loans" accounts are not included in the table.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## c.1.4. Additional Information on Credit Quality of Assets

Definitions of overdue and provisioned receivables are represented in the Fourth Section and footnote numbered II-16. Bank's methods for determining provisions amounts are mentioned in the Third Section and footnote numbered VIII.

The bank is restructuring its loans and other receivables classified as first and second group as well as non-performing loans and receivables. Restructuring in performing loans are made by extending the term date of credit given to customer by Bank with changing conditions of contract aiming the enhancing of solvency of customer or customer's demand.

Restructuring in non-performing loans are generally made by establishing a new redemption plan within the context of a protocol aiming the collection of those receivables whose redemption plan are not valid because of delinquency previously.

The breakdown of receivables in terms of geographic regions, sectors and remaining maturities are represented in "Explanations on Credit Risk" in the fourth section and footnote numbered II.

Sectoral receivables are presented in the footnote numbered Part Four of Chapter II-16. The amounts of the receivables that are set aside for the geographical regions are shown in the following table. The amount of non-performing loans which are actively written off in 2016 is TL 408,410.

Current Period	Non-Performing Loans	Specific Provisions
Domestic	5,029,492	3,809,378
EU Countries	126,691	91,855
OECD Countries <sup>(1)</sup>	917	831
Off-Shore Banking Shores	5	3
USA, Canada	574	379
Other Countries	115,802	111,656
<b>Total</b>	<b>5,273,481</b>	<b>4,014,102</b>

<sup>(1)</sup> OECD Countries other than EU countries, USA and Canada.

Aging of past-due loans are disclosed under Section Four no II-11 footnote.

## c.2. Credit Risk Mitigation

## c.2.1. Qualitative Public Disclosures On Credit Risk Mitigation Techniques

In the calculation of the Group's Credit Risk Mitigation in accordance with the "Communiqué on Credit Risk Mitigation Techniques" published in the Official Gazette numbered 29111 on 6 September 2014, the financial collaterals are taken into consideration. The Group takes local currency and foreign currency deposit pledges into consideration as financial collaterals in calculating regulatory capital adequacy.

Collateral valuation and its management policy and primary features processes are given at Chapter Four no.II-16 under "Information on Credit Risk" footnote.

## c.2.2. Credit Risk Mitigation Techniques - Standard Approach

	Exposures unsecured	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
Loans	220,561,426	4,734,236	3,642,314			
Debt securities	56,335,866					
<b>Total</b>	<b>276,897,292</b>	<b>4,734,236</b>	<b>3,642,314</b>			
Of which defaulted	1,259,379					

## c.3. Credit Risk Under Standardised Approach

## c.3.1. Qualitative Disclosures on Banks' Use of External Credit Ratings Under the Standardised Approach for Credit Risk

Aforementioned explanations are disclosed under Chapter Four no XI-a.1 footnote.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### c.3.2. Standard Approach: Credit risk exposure and credit risk mitigation techniques:

	Exposures before CCF and CRM <sup>(1)</sup>		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	Risk-Weighted Amount	Risk-Weighted Amount Density
Exposures to sovereigns and their central banks	88,539,234	214,285	88,629,070	103,666	21,685,245	24.44%
Exposures to regional and local governments	48,625	15,649	48,624	3,196	26,164	50.49%
Exposures to administrative bodies and non-commercial entities	255,529	153,007	255,859	40,771	296,630	100.00%
Exposures to multilateral development banks		9,812		4,906		
Exposures to international organizations						
Exposures to banks and securities firms	15,196,982	12,152,324	20,744,369	3,357,834	9,682,726	40.17%
Exposures to corporates	140,691,086	85,611,076	138,935,425	33,558,720	170,600,013	98.90%
Retail exposures	61,583,777	27,661,357	61,255,297	1,627,557	38,642,576	61.45%
Exposures secured by residential property	16,616,477	432,538	16,616,477	173,269	5,876,411	35.00%
Exposures secured by commercial property	22,482,802	1,835,631	22,432,843	1,148,616	16,011,462	67.90%
Past-due loans	1,259,379		1,259,379		972,080	77.19%
Exposures in higher-risk categories	1,546	540,694	1,548	136,015	158,614	115.30%
Exposures in the form of bonds secured by mortgages						
Short term exposures to banks, brokerage houses and corporates						
Equity investments in the form of collective investment undertakings	360,177		360,177		360,177	100.00%
Other exposures	6,185,453		6,185,453		6,387,329	103.26%
Equity investments	16,315,329		16,315,329		12,544,590	76.89%
<b>Total</b>	<b>369,536,396</b>	<b>128,626,373</b>	<b>373,039,850</b>	<b>40,154,550</b>	<b>283,244,017</b>	<b>68.55%</b>

<sup>(1)</sup> Includes on-balance sheet and off-balance sheet transactions subject to the calculation of the credit risk amount according to the "Regulation on Evaluation and Measurement of Banks' Capital Adequacy Ratio".

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## c.3.3 Standardised Approach: Exposures by Risk Classes and Risk Weights:

Risk Groups	Risk Weights										Total
	0% <sup>(1)</sup>	10%	20%	35%	50%	75%	100%	150%	200%	250%	
Exposures to sovereigns and their central banks	48,654,052				38,561,930		925,070			591,684	88,732,736
Exposures to regional and local governments					51,312		508				51,820
Exposures to administrative bodies and non-commercial entities							296,630				296,630
Exposures to multilateral development banks	4,906										4,906
Exposures to international organizations											
Exposures to banks and securities firms			8,319,673		15,527,658		254,691	181			24,102,203
Exposures to corporates			133,163		3,592,419		168,751,348	17,215			172,494,145
Retail exposures	11,359,421					51,523,433					62,882,854
Exposures secured by residential property				16,789,746							16,789,746
Exposures secured by commercial property					15,139,996		8,441,463				23,581,459
Past-due loans <sup>(2)</sup>					574,599		684,780				1,259,379
Exposures in higher-risk categories					27,593		40,275	69,695			137,563
Exposures in the form of bonds secured by mortgages											
Short term exposures to banks, brokerage houses and corporates											
Equity investments in the form of collective investment undertakings							360,177				360,177
Other exposures							6,050,869			134,584	6,185,453
Equity investments	3,770,710		36				12,544,583				16,315,329
<b>Total</b>	<b>63,789,089</b>		<b>8,452,872</b>	<b>16,789,746</b>	<b>73,475,507</b>	<b>51,523,433</b>	<b>198,350,394</b>	<b>87,091</b>		<b>726,268</b>	<b>413,194,400</b>

<sup>(1)</sup> This includes individual pension receivables and securities that has been blocked by the group company Anadolu Hayat Emeklilik A.Ş in the name of its policyholders.

<sup>(2)</sup> In accordance with the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", credits and other receivables which are monitored in the non-performing loans and receivables representing the net of value excluding specific provisions.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### d. Explanations on Counterparty credit risk

##### d.1. Qualitative Disclosures on Counterparty Credit Risk Approach

The counterparty credit risk that the Parent Bank is exposed to is managed within the framework of general limit allocation and credit risk mitigation that are outlined the credit risk policy. In setting general credit limits, the counterparty credit risks of customers as well as their cash and noncash risks are taken into account with a holistic view. Moreover, the total position of the transactions which create counterparty credit risk is also monitored under a separate risk limit.

Derivatives and repo-like operations such as both sides counterparty credit risk arising from liability transactions, 23 November 2015 date and no 29511, which entered into gazette "Measurement of Banks' Capital Adequacy and Annex-2 on the Evaluation" is calculated in accordance with the provisions. Counterparty credit valuation method based on the fair value of derivative instruments are applied for the calculation of risk. In calculating the amount of risk on derivative financial instruments are taken sum of the positive replacement cost and potential credit risk exposure. In calculating the amount of the potential credit risk, the contract amount is multiplied by the rates given in the regulation. Replacement cost of derivatives are obtained according to the valuation at fair value of the related contracts.

Most of the credit risk caused by derivative transactions are subject to daily collateral trade within agreements. On the other hand, the risk-reducing effect of such agreements is not considered in the calculation of the counterparty credit risk under the capital adequacy legislation. There are no guarantees received or sold by credit derivatives by the Bank in the context of trading or banking accounts.

##### d.2. Counterparty Credit Risk (CCR) Approach Analysis:

	Replacement Cost	Potential Future Exposure	Exposure after Credit Risk Mitigation	Risk Weighted Amounts
Standardised Approach - CCR (for derivatives)	2,342,038	1,094,234	3,436,272	2,278,782
Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			3,709,440	1,475,333
<b>Total</b>	<b>2,342,038</b>	<b>1,094,234</b>	<b>7,145,712</b>	<b>3,754,115</b>

##### d.3. Credit valuation adjustment (CVA) for capital obligation:

	Risk Amounts	Risk Weighted Amounts
Total portfolio value with standardized approach CVA capital change	3,436,272	899,276
Total subject to the CVA capital change	3,436,272	899,276

##### d.4. CCR exposures by risk class and risk weights:

Risk Groups	Risk Weights							Total Credit Exposure
	0%	10%	20%	50%	75%	100%	150%	
Exposures to sovereigns and their central banks	89,832					3		89,835
Exposures to regional and local governments								
Exposures to administrative bodies and non-commercial entities						634		634
Exposures to multilateral development banks								
Exposures to international organizations								
Exposures to banks and securities firms			1,713,459	3,832,730		1,200		5,547,389
Exposures to corporates				19,700		1,469,015		1,488,715
Retail exposures					19,137			19,137
Exposures secured by residential property								
Exposures secured by commercial property								
Exposures in high-risk categories							2	2
Exposures in the form of bonds secured by mortgages								
Short term exposures to banks, brokerage houses and corporates								
Equity investments in the form of collective investment undertakings								
Equity investments								
Other Exposures								
Other Assets								
Stock Investments								

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## d.5. Collateral for CCR:

	Collateral used in derivative transactions				Collateral used in other transactions	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Not Segregated	Segregated	Not Segregated		
Cash- Domestic Currency					15,482,924	
Cash- Other Currencies	69,654				6,738,456	
Government bills/bonds-Domestic					534	
Corporate bills/bonds					13,963	
<b>Total</b>	<b>69,654</b>				<b>22,235,877</b>	

## d.6. Credit derivatives exposures:

None.

## d.7. Exposures to central counterparties:

None.

## e. Explanations on securitisations:

None.

## f. Explanations on Market Risk:

## f.1. Qualitative information disclosed to the public regarding Market Risk

Market risk is defined as the risk that may reduce the market value of the trading portfolio due to the changes in the risk factors named interest rate, exchange rates, equities and the price of commodities and options.

The procedures for the management of market risk are discussed in the Parent Bank's "Asset and Liability Management Risk Policy" and those procedures are in line with the risk/return expectations and with the limits that are defined in the risk appetite framework. Limits related to market risk; are established by the Board and are revised periodically in order to reflect market conditions and best practices in the industry. Compliance to those limits is closely monitored by the Risk Management Department, Asset and Liability Management Committee and by the executive departments. Additionally, compliance with the provisions relating to the procedures and policies of market risk management is audited by the internal audit system.

Trading activities of the securities that are included in the calculation of market risk is carried out by taking the Asset-Liability Committee decisions, risk policies and established limits into consideration and risks arising due to these activities are hedged using derivatives transactions where necessary.

Measurement of market risk, reporting of results, and monitoring compliance with the risk limits are among the key responsibilities of the Risk Management Department. Analyses related to market risk are reported to the Risk Committee and to the Board via the Audit Committee by the Risk Management Department.

The trading book of the Parent Bank included in market risk calculations consists of on balance-sheet financial assets that are held for trading intent, derivatives that provide hedge to those instruments and foreign currency positions. The market risk carried by the Parent Bank is measured and monitored using two methods known respectively as the Standard Method and the Value at Risk Model (VAR) in accordance with the local regulations which are established in compliance with the international legislations. In this context, the exchange rate risk emerges as the most important component of the market risk.

## f.2. Standardised Approach:

	RWA
Outright Products	8,955,913
Interest rate risk (general and specific)	1,445,063
Equity risk (general and specific)	1,141,513
Foreign exchange risk	5,765,100
Commodity risk	604,237
Options	95,987
Simplified approach	
Delta-plus method	95,987
Scenario approach	
Securitisations	
<b>Total</b>	<b>9,051,900</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### g. Explanations on Operational Risk

The operational risk capital requirement is calculated according to Regulation on Measurement and Evaluation of Capital Adequacy of Banks' article number 24, is measured using the Basic Indicator Approach once a year in parallel with domestic regulations. As of 31 December 2016 the consolidated operational risk amount is TL 21,266,313 information about the calculation is given below:

The information contained in the following table when using the basic indicator method:

	2PP Amount	1PP Amount	CP Amount	Total/Positive Years of Gross Income Amount	Rate (%)	Total
Gross Income (1)	10,309,342	11,384,289	12,332,469	3	15	1,701,305
Value at operational risk (Total*12.5)						21,266,313

#### h. The interest rate risk of the banking book items:

Interest rate risk arising from the banking accounts is defined as negative effect risk on capital of the changes in market interest rates due to differences in interest settlement and re-pricing on, differences in interest-earning assets taking part in the banking book; interest-bearing liabilities; interest-bearing derivative transactions inclusive of the policies established by the Board of Directors, is managed within the framework of the strategies set by the Parent Bank Asset-Liability Committee. Compliance with internal risk limits for banking portfolio is closely and continuously monitored by the Risk Management Department and Asset-Liability Committee and the measurement results are reported to the Board of Directors on a monthly basis.

Duration and sensitivity analysis are conducted on a monthly basis by the Bank in the scope of monitoring of interest rate risk arising from the banking books about Interest Rate Risk in the Banking Accounts from the Regulation on Measurement and Evaluation of Standard Shock Method which is published in the Official Gazette No. 28034 dated 23 August 2011. In the duration analysis, the maturity gap between assets and liabilities of the balance sheet are determined by the calculation of the weighted average maturities based on the asset that sensitive to interest rate and liabilities and off-balance sheet transactions re-pricing period. In the interest rate risk sensitivity analysis, the influence of the various interest rate change scenarios to the economic value of the Bank's capital is examined.

The interest rate risk of the banking book item in accordance with the legal regulations is measured and monitored on a monthly basis within the scope of the Regulation about Measurement and Assessment of Interest Rate Risk in the Banking Accounts by Standard Shock Method. In the calculations committed due to the mentioned regulations, behavioral maturity modeling method is used for the deposits with low sensitivity to interest rate changes and demand deposits which is original maturities is longer than contractual maturities. In the core deposit analysis, the historical data of demand deposit is used and calculated the how much and which maturity would remain within the Bank and these analysis is used as an input to not constitute a conflict of the legal provisions for quantifying the interest rate arising from banking book.

Currency	Applied Shock (+/- x basis point)	Gains Loss	Revenue/Shareholders' Equity - Loss/Shareholders' Equity
TL	(+) 500	(5,692,726)	(13.89)%
TL	(-) 400	5,506,426	13.43%
EUR	(+) 200	(328,521)	(0.80)%
EUR	(-) 200	372,124	0.91%
USD	(+) 200	161,844	0.40%
USD	(-) 200	(24,701)	(0.06)%
<b>Total (for Negative Shocks)</b>		<b>5,853,849</b>	<b>14.28%</b>
<b>Total (for Positive Shocks)</b>		<b>(5,859,403)</b>	<b>(14.29)%</b>

#### XII. Explanations on Consolidated Business Segmentation

The Group's operations are classified as corporate, commercial, retail and private banking, and treasury/investment banking. While the commercial and corporate operations are differentiated by the Parent Bank and its financial institutions, according to their own criterion, in the classification of other operations, the same methods are applied by the Group.

Services to the large corporations, SMEs and other trading companies are provided through various financial media within the course of the corporate and commercial operations. Services such as project financing, operating and investment loans, deposit and cash management, credit cards, cheques and bills, foreign trade transactions and financing, letter of guarantee, letter of credit, forfeiting, foreign currency trading, bill collections, payrolls, investment accounts, tax collections and other banking services are provided for the aforementioned customer segments.

Retail banking services are comprised of individuals needs such as deposits, consumer loans, overdraft accounts, credit cards, bill collections, remittances, foreign currency trading, safe-deposit boxes, insurance, tax collections, investment accounts and by other banking services. Private banking category, are comprised of any kind of financial and cash management related services are provided for individuals within the high-income segment.

Treasury transactions are comprised of medium and long term funding tools such as securities trading, money market transactions, spot and forward TL and foreign currency trading, and derivative transactions such as forwards, swaps, futures and options, as well as syndications and securitizations.

The Group's investments in unconsolidated associates, subsidiaries and jointly controlled entities are evaluated within the context of investment banking.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

Statement of information related to business segmentation of the Group is given below:

Current Period	Corporate	Commercial	Retail	Private	Treasury/ Investment	Unallocated	Total
<b>OPERATING INCOME/EXPENSE</b>							
Interest Income							25,061,299
Interest Income from Loans	4,969,410	8,919,503	5,082,432	17,529		98,060	19,086,934
Interest Income from Banks					522,260		522,260
Interest Income from Money Market Transactions					164,069		164,069
Interest Income from Securities					4,588,942		4,588,942
Finance Lease Income	119,845	163,730					283,575
Other Interest Income	112,504	48,120			223,193	31,702	415,519
Interest Expense							12,639,534
Interest Expense on Deposits	1,087,076	1,326,660	3,380,580	1,064,572		539,994	7,398,882
Interest Expense on Funds Borrowed	348,658				901,532		1,250,190
Interest Expense on Money Market Transactions					2,098,326		2,098,326
Interest Expense on Securities Issued					1,860,738		1,860,738
Other Interest Expense						31,398	31,398
Net Interest Income							12,421,765
Net Fees and Commissions Income							2,148,533
Fees and Commissions Received	352,489	1,811,325	1,050,115	10,905	149,106	86,317	3,460,257
Fees and Commissions Paid	400,389	334,000	498		71,875	504,962	1,311,724
Dividend Income					318,223		318,223
Trading Income/Loss (Net)					(417,002)		(417,002)
Other Income	2,981,765	2,626,421	221,180	5	448,188	449,020	6,726,579
Prov. for Loans and Other Receivables	222,203	1,210,647	600,231	23	151,193	651,198	2,835,495
Other Operating Expense	1,773,391	3,251,400	1,742,426	10,083	302,050	4,250,941	11,330,291
Income Before Tax							7,032,312
Tax Provision							1,349,454
<b>Net Period Profit</b>							<b>5,682,858</b>
Group Profit/Loss							4,998,956
Non-controlling Interest Profit/Loss							683,902
<b>SEGMENT ASSETS</b>							
Financial Assets at FV Through P/L					3,435,744		3,435,744
Banks and Other Financial Institutions					9,257,793		9,257,793
Money Market Placements					466,838		466,838
Financial Assets Available for Sale					51,770,372		51,770,372
Loans and Receivables	88,903,218	88,600,090	45,588,264	186,679	53,309	1,964,102	225,295,662
Held to Maturity Investments					6,757,758		6,757,758
Associates, subsidiaries and jointly controlled entities					6,010,149		6,010,149
Lease Receivables	2,121,064	1,673,300			7,878		3,802,242
Other	2,604,145	646,225			3,373,451	60,399,885	67,023,706
							<b>373,820,264</b>
<b>SEGMENT LIABILITIES</b>							
Deposits	25,177,912	38,086,855	86,305,569	17,918,532		11,670,570	179,159,438
Derivative Financial Liabilities Held for Trading					1,305,085		1,305,085
Funds Borrowed	18,953,093				33,212,986		52,166,079
Money Market Funds					24,974,003		24,974,003
Marketable Securities Issued <sup>(1)</sup>					33,590,697		33,590,697
Other Liabilities <sup>(2)</sup>	41,396				716,858	25,220,911	25,979,165
Provisions						14,918,935	14,918,935
Shareholders' Equity						41,726,862	41,726,862
							<b>373,820,264</b>

<sup>(1)</sup> The amount of TL 4,930,016 of Includes subordinated bonds which are classified on the balance sheet as subordinated loans.<sup>(2)</sup> The borrower funds amounts are included.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

Prior Period	Corporate	Commercial	Retail	Private	Treasury/ Investment	Unallocated	Total
<b>OPERATING INCOME/EXPENSE</b>							
Interest Income							21,406,966
Interest Income from Loans	4,112,943	7,561,576	4,663,280	17,330		133,846	16,488,975
Interest Income from Banks					258,602		258,602
Interest Income from Money Market Transactions					96,233		96,233
Interest Income from Securities					4,082,312		4,082,312
Finance Lease Income	148,463	114,335					262,798
Other Interest Income	88,598	36,258			65,919	27,271	218,046
Interest Expense							11,211,101
Interest Expense on Deposits	721,546	1,077,368	2,853,037	987,963		642,055	6,281,969
Interest Expense on Funds Borrowed	396,817				754,852		1,151,669
Interest Expense on Money Market Transactions					2,151,312		2,151,312
Interest Expense on Securities Issued					1,589,475		1,589,475
Other Interest Expense						36,676	36,676
Net Interest Income							10,195,865
Net Fees and Commissions Income							1,807,881
Fees and Commissions Received	298,665	1,419,706	942,690	10,606	103,470	106,580	2,881,717
Fees and Commissions Paid	363,326	262,296	455		31,674	416,085	1,073,836
Dividend Income					256,696		256,696
Trading Income/Loss (Net)					(325,160)		(325,160)
Other Income	2,494,606	2,182,391	167,071	168	287,560	752,836	5,884,632
Prov. for Loans and Other Receivables	154,475	766,285	530,867	5	2,308	835,782	2,289,722
Other Operating Expense	1,970,847	2,967,602	1,565,086	9,639	407,192	4,019,927	10,940,293
Income Before Tax							4,589,899
Tax Provision							850,228
<b>Net Period Profit</b>							<b>3,739,671</b>
Group Profit/Loss							3,330,740
Non-controlling Interest's Shares' Profit/Loss							408,931
<b>SEGMENT ASSETS</b>							
Fin. Assets At Fair Value Through P/L					2,503,449		2,503,449
Banks and Other Financial Institutions					6,376,094		6,376,094
Money Market Placements					1,308,203		1,308,203
Financial Assets Available for Sale					47,009,342		47,009,342
Loans and Receivables	70,202,064	79,057,988	41,347,465	196,007	282,922	2,851,381	193,937,827
Investments Held to Maturity					4,497,417		4,497,417
Associates and Subsidiaries					4,948,894		4,948,894
Lease Receivables	1,909,420	1,287,115			2,776		3,199,311
Other	1,840,972	405,935			2,962,675	56,508,853	61,718,435
							<b>325,498,972</b>
<b>SEGMENT LIABILITIES</b>							
Deposits	20,816,727	32,497,741	71,351,942	16,194,848		13,340,032	154,201,290
Derivative Financial Liabilities Held for Trading					1,206,148		1,206,148
Funds Borrowed	17,205,871				28,408,499		45,614,370
Money Market Funds					24,624,433		24,624,433
Marketable Securities Issued <sup>(1)</sup>					28,126,691		28,126,691
Other Liabilities <sup>(2)</sup>	49,854				618,091	20,812,275	21,480,220
Provisions						13,562,294	13,562,294
Shareholders' Equity						36,683,526	36,683,526
							<b>325,498,972</b>

<sup>(1)</sup> The amount of TL 3,268,784 of Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

<sup>(2)</sup> The borrower funds amounts are included.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## SECTION FIVE: DISCLOSURES AND FOOTNOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## I. DISCLOSURES AND FOOTNOTES ON CONSOLIDATED ASSETS

## a. Cash and CBRT:

## a.1. Information on Cash and Balances with the Central Bank of the Republic of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash in TL/Foreign Currency	1,988,325	1,422,102	1,875,394	792,774
Central Bank of the Republic of Turkey	4,289,133	25,173,045	1,453,639	28,165,580
Other		360,526		202,589
<b>Total</b>	<b>6,277,458</b>	<b>26,955,673</b>	<b>3,329,033</b>	<b>29,160,943</b>

## a.2. Information on Balances with the CBRT:

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposit	4,289,133	4,292,054	1,453,639	3,538,655
Unrestricted Time Deposit				
Restricted Time Deposit		1,416,815		
Other <sup>(1)</sup>		19,464,176		24,626,925
<b>Total</b>	<b>4,289,133</b>	<b>25,173,045</b>	<b>1,453,639</b>	<b>28,165,580</b>

<sup>(1)</sup> The amount of reserve deposits held at the Central Bank of the Republic of Turkey regarding the foreign currency liabilities

## a.3. Information on reserve requirements:

As per the Communiqué no. 2013/15 "Reserve Deposits" of the Central Bank of the Republic of Turkey ("CBRT"), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 4% - 10.5% for financial statement TL deposits and other liabilities, between 8.5% - 12.5% for FC deposits and between 4.5% - 24.5% for other FC liabilities. Reserves are calculated and set aside every two weeks on Friday for 14-day periods. In accordance with the related communiqué, CBRT pays interests TL and USD reserves.

## b. Information on Financial Assets at Fair Value through Profit and Loss:

## b.1. Financial assets at fair value through profit and loss, which are given as collateral or blocked:

Financial assets at fair value through profit and loss, which are given as collateral or blocked as of 31 December 2016 are amounting to TL 55,457 (31 December 2015: TL 67,766).

## b.2. Financial assets at fair value through profit and loss, which are subject to repurchase agreements:

Financial assets at fair value through profit and loss, which are subject to repurchase agreements as of 31 December 2016 are amounting to TL 334,522 (31 December 2015: TL 364,261).

## b.3. Positive differences on derivative financial assets held for trading:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	2,584	174,573	27,489	49,423
Swap Transactions	35,455	1,985,417	120,036	1,120,515
Futures	4	72	36	
Options	1,987	141,674	1,708	97,169
Other			13	35,610
<b>Total</b>	<b>40,030</b>	<b>2,301,736</b>	<b>149,282</b>	<b>1,302,717</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### c. Information on Banks:

##### c.1. Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic Banks	2,641,914	3,754,532	1,574,532	2,951,273
Foreign Banks	138,043	2,723,304	83,847	1,766,442
Foreign Head Office and Branches				
<b>Total</b>	<b>2,779,957</b>	<b>6,477,836</b>	<b>1,658,379</b>	<b>4,717,715</b>

##### c.2. Information on foreign banks:

	Unrestricted Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	1,551,147	737,571		
USA, Canada	178,056	190,332		
OECD Countries <sup>(1)</sup>	165,897	236,209		
Off-shore Banking Regions		1,506		
Other	603,123	483,876	363,124	200,795
<b>Total</b>	<b>2,498,223</b>	<b>1,649,494</b>	<b>363,124</b>	<b>200,795</b>

<sup>(1)</sup> OECD countries other than the EU countries, USA and Canada.

#### d. Information on Financial Assets Available for Sale:

##### d.1. Information on financial assets available for sale, which are given as collateral or blocked:

Financial assets available for sale, which are given as collateral or blocked amount to TL 11,346,811 as of 31 December 2016 (31 December 2015: TL 10,917,233).

##### d.2. Information on financial assets available for sale, which are subject to repurchase agreements:

Financial assets available for sale which are subject to repurchase agreements amount to TL 16,931,316 as of 31 December 2016 (31 December 2015: TL 21,594,391).

##### d.3. Information on financial assets available for sale:

	Current Period	Prior Period
Debt Securities	52,706,432	47,191,240
Quoted on a Stock Exchange	39,816,939	33,893,694
Not-Quoted <sup>(1)</sup>	12,889,493	13,297,546
Share Certificates	182,894	361,877
Quoted on a Stock Exchange	15,234	33,272
Not-Quoted	167,660	328,605
Value Increases/Impairment Losses (-)	1,553,076	983,643
Other	434,122	439,868
<b>Total</b>	<b>51,770,372</b>	<b>47,009,342</b>

<sup>(1)</sup> Refers to the debt securities, which are not quoted on the Stock Exchange or which are not traded, although quoted, on the Stock Exchange at the end of the related period.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## e. Information related to loans:

## e.1. Information on all types of loans and advances given to shareholders and employees of the group:

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct Lending to Shareholders				
Corporate Shareholders				
Individual Shareholders				
Indirect Lending to Shareholders				
Loans to Employees	234,856	292	248,137	250
<b>Total</b>	<b>234,856</b>	<b>292</b>	<b>248,137</b>	<b>250</b>

## e.2. Information about the first and second group loans and other receivables including loans that have been restructured or rescheduled:

	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables	Amendments on Conditions of Contract		Loans and Other receivables	Amendments on Conditions of Contract	
		Amendments related to the extension of the payment plan	Other		Amendments related to the extension of the payment plan	Other
<b>Cash Loans</b>						
Non-specialized loans	217,519,786	5,015,202	906,574	6,516,497	1,728,940	56,952
Corporation loans	112,114,262	2,439,890		3,597,987	888,253 <sup>(1)</sup>	29,863
Export loans	10,328,429	126,304		251,283	84,367	
Import loans						
Loans Given to Financial Sector	5,580,284			13,580		
Consumer loans	38,801,758	2,086,158	890,905	1,405,961	161,713	24,160
Credit Cards	12,235,123			657,160	407,654	
Other	38,459,930	362,850	15,669	590,526	186,953 <sup>(1)</sup>	2,929
Specialized Loans						
Other Receivables						
<b>Total</b>	<b>217,519,786</b>	<b>5,015,202</b>	<b>906,574</b>	<b>6,516,497</b>	<b>1,728,940</b>	<b>56,952</b>

<sup>(1)</sup> The amount of TL 34,305 loans provided to maritime sector, TL 19,140 to tourism sector and TL 42,556 to energy sector which have extended payment plans within the scope of Temporary 6., 9. and 10. Substances of the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

The loans granted to a company amounting to TL 2,076,844 are classified under "Performing Loans and Other Receivables". Discussions between creditor banks and related sovereign institutions are proceeding regarding restructuring of loans granted and a positive outcome of these discussions is expected.

	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring <sup>(1)</sup>
Number of Amendments Related to the Extension of the Payment Plan		
Extended for 1 or 2 Times	4,757,121	1,138,128
Extended for 3, 4 or 5 Times	254,564	590,510
Extended for More than 5 Times	3,517	302

<sup>(1)</sup> The amount of TL 34,305 loans provided to maritime sector, TL 19,140 to tourism sector and TL 42,556 to energy sector which have extended payment plans within the scope of Temporary 6., 9. and 10. Substances of the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside.

	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring <sup>(1)</sup>
The Time Extended via the Amendment on Payment Plan		
0-6 Months	723,569	74,139
6 Months - 12 Months	371,900	109,001
1-2 Years	1,159,208	278,953
2-5 Years	1,909,276	944,434
5 Years and More	851,249	322,413

<sup>(1)</sup> The amount of TL 34,305 loans provided to maritime sector, TL 19,140 to tourism sector and TL 42,556 to energy sector which have extended payment plans within the scope of Temporary 6., 9. and 10. Substances of the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside.

#### e.3. Information on maturity analysis of cash loans:

	Performing Loans and Other Receivables		Loans under Follow-Up and Other Receivables	
	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms	Loans and Other Receivables	Loans and Receivables with Revised Contract Terms
Short-term Loans and Other Receivables	47,661,661	1,468,229	1,010,397	548,366
Non-Specialization Loans	47,661,661	1,468,229	1,010,397	548,366
Specialization Loans				
Other Receivables				
Medium and Long-term Loans and Other Receivables	169,858,125	4,453,547	5,506,100	1,237,526
Non-Specialization Loans	169,858,125	4,453,547	5,506,100	1,237,526 <sup>(1)</sup>
Specialization Loans				
Other Receivables				

<sup>(1)</sup> The amount of TL 34,305 loans provided to maritime sector, TL 19,140 to tourism sector and TL 42,556 to energy sector which have extended payment plans within the scope of Temporary 6., 9. and 10. Substances of the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## e.4. Information on consumer loans, retail credit cards, personnel loans and personnel credit cards:

	Short-Term	Medium and Long-Term	Interest and Income Accruals	Total
Consumer Loans-TL	715,765	38,186,617	257,346	39,159,728
Real Estate Loans	28,902	17,546,422	97,946	17,673,270
Vehicle Loans	11,294	678,962	5,339	695,595
General Purpose Consumer Loans	675,569	19,961,233	154,061	20,790,863
Other Consumer Loans				
Consumer Loans - FC Indexed		6,143	13,720	19,863
Real Estate Loans		6,143	13,720	19,863
Vehicle Loans				
General Purpose Consumer Loans				
Other Consumer Loans				
Consumer Loans - FC	1,702	225,823	806	228,331
Real Estate Loans		4,706	15	4,721
Vehicle Loans				
General Purpose Consumer Loans	1,702	221,117	791	223,610
Other Consumer Loans				
Retail Credit Cards-TL	10,035,113	489,048	39,444	10,563,605
With Instalments	4,080,110	489,048		4,569,158
Without Instalments	5,955,003		39,444	5,994,447
Retail Credit Cards-FC	5,317			5,317
With Instalments				
Without Instalments	5,317			5,317
Personnel Loans-TL	13,193	97,054	903	111,150
Real Estate Loans		3,729	68	3,797
Vehicle Loans	39	1,079	7	1,125
General Purpose Consumer Loans	13,154	92,246	828	106,228
Other Consumer Loans				
Personnel Loans - FC Indexed				
Real Estate Loans				
Vehicle Loans				
General Purpose Consumer Loans				
Other Consumer Loans				
Personnel Loans-FC	1,422	5,777	16	7,215
Real Estate Loans		189		189
Vehicle Loans				
General Purpose Consumer Loans	1,422	5,588	16	7,026
Other Consumer Loans				
Personnel Credit Cards-TL	108,131	579	407	109,117
With Instalments	41,374	579		41,953
Without Instalments	66,757		407	67,164
Personnel Credit Cards-FC	108			108
With Instalments				
Without Instalments	108			108
Overdraft Accounts - TL (real persons)	595,147		9,019	604,166
Overdraft Accounts - FC (real persons)	77,266			77,266
<b>Total</b>	<b>11,553,164</b>	<b>39,011,041</b>	<b>321,661</b>	<b>50,885,866</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### e.5. Information on commercial installments loans and corporate credit cards:

	Short-Term	Medium and Long Term	Interest and Income Accruals	Total
Commercial Loans With Instalments-TL	1,705,699	28,893,465	317,808	30,916,972
Real Estate Loans	5,227	1,387,261	10,314	1,402,802
Vehicle Loans	75,178	3,121,238	23,720	3,220,136
General Purpose Commercial Loans	1,625,294	24,384,966	283,774	26,294,034
Other Commercial Loans				
Commercial Loans With Instalments-FC Indexed	113,713	2,261,746	566,210	2,941,669
Real Estate Loans		75,668	32,327	107,995
Vehicle Loans	8,278	342,799	73,614	424,691
General Purpose Commercial Loans	105,435	1,843,279	460,269	2,408,983
Other Commercial Loans				
Commercial Loans With Instalments-FC	17,779	2,462,542	11,454	2,491,775
Real Estate Loans				
Vehicle Loans				
General Purpose Commercial Loans	42	2,257,843	8,033	2,265,918
Other Commercial Loans	17,737	204,699	3,421	225,857
Corporate Credit Cards-TL	2,192,841	1,083	20,212	2,214,136
With Instalments	686,179	1,083		687,262
Without Instalments	1,506,662		20,212	1,526,874
Corporate Credit Cards-FC				
With Instalments				
Without Instalments				
Overdraft Accounts - TL (corporate)	1,192,251		64,643	1,256,894
Overdraft Accounts - FC (corporate)	2,834			2,834
<b>Total</b>	<b>5,225,117</b>	<b>33,618,836</b>	<b>980,327</b>	<b>39,824,280</b>

#### e.6. Allocation of loan by borrowers:

	Current Period	Prior Period
Public Sector	1,962,199	1,823,235
Private Sector	223,333,463	192,114,592
<b>Total</b>	<b>225,295,662</b>	<b>193,937,827</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## e.7. Domestic and foreign loans:

	Current Period	Prior Period
Domestic Loans	219,220,355	189,894,242
Foreign Loans	6,075,307	4,043,585
<b>Total</b>	<b>225,295,662</b>	<b>193,937,827</b>

## e.8. Loans granted to subsidiaries and associates:

	Current Period	Prior Period
Direct Loans Granted to Subsidiaries and Associates	25,018	24,367
Indirect Loans Granted to Subsidiaries and Associates		
<b>Total</b>	<b>25,018</b>	<b>24,367</b>

## e.9. Specific provisions provided against loans:

	Current Period	Prior Period
Specific Provisions		
Loans and Receivables with Limited Collectability	144,220	116,801
Loans and Receivables with Doubtful Collectability	603,320	465,980
Uncollectible Loans and Receivables	3,266,562	2,309,082
<b>Total</b>	<b>4,014,102</b>	<b>2,891,863</b>

## e.10. Information on non-performing loans (Net):

## e.10.1. Information on loans and other receivables included in non-performing loans, which are restructured or rescheduled by the Group:

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
<b>Current Period</b>			
(Gross amounts before the specific provisions)	49,185	77,705	100,524
Restructured Loans and Other Receivables			
Rescheduled Loans and Other Receivables	49,185	77,705	100,524
<b>Prior Period</b>			
(Gross amounts before the specific provisions)	42,762	59,132	71,274
Restructured Loans and Other Receivables			
Rescheduled Loans and Other Receivables	42,762	59,132	71,274

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### e.10.2. Movement of total non-performing loans:

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
<b>Prior Period Ending Balance</b>	569,563	924,153	2,426,515
Corporate and Commercial Loans	325,626	532,615	1,622,136
Retail Loans	153,719	236,783	403,366
Credit Cards	90,218	154,755	338,221
Other			62,792
<b>Additions (+)</b>	<b>3,209,926</b>	<b>64,229</b>	<b>104,804</b>
Corporate and Commercial Loans	2,044,169	49,276	82,275
Retail Loans	716,467	6,164	3,843
Credit Cards	449,287	8,789	1,584
Other	3		17,102
<b>Transfers from Other NPL categories (+)</b>		<b>2,376,818</b>	<b>1,862,004</b>
Corporate and Commercial Loans		1,451,577	1,147,551
Retail Loans		572,801	437,660
Credit Cards		352,440	276,793
Other			
<b>Transfers to Other NPL categories (-)</b>	<b>2,446,201</b>	<b>1,792,621</b>	
Corporate and Commercial Loans	1,520,960	1,078,168	
Retail Loans	572,801	437,660	
Credit Cards	352,440	276,793	
Other			
<b>Collections (-) <sup>(1)</sup></b>	<b>624,322</b>	<b>385,912</b>	<b>638,787</b>
Corporate and Commercial Loans	356,746	173,993	363,470
Retail Loans	157,682	129,484	178,204
Credit Cards	109,891	82,435	93,075
Other	3		4,038
<b>Write-Offs (-) <sup>(1)</sup></b>		<b>8</b>	<b>408,402</b>
Corporate and Commercial Loans			180,084
Retail Loans		7	95,614
Credit Cards		1	132,689
Other			15
<b>Foreign Currency Effect</b>	<b>3,392</b>	<b>346</b>	<b>27,984</b>
Corporate and Commercial Loans	3,244	242	25,440
Retail Loans	148	104	2,544
Credit Cards			
Other			
<b>Current Period Ending Balance</b>	<b>712,358</b>	<b>1,187,005</b>	<b>3,374,118</b>
Corporate and Commercial Loans	495,333	781,549	2,333,848
Retail Loans	139,851	248,701	573,595
Credit Cards	77,174	156,755	390,834
Other			75,841
<b>Specific Provisions (-)</b>	<b>144,220</b>	<b>603,320</b>	<b>3,266,562</b>
Corporate and Commercial Loans	100,305	399,843	2,237,562
Retail Loans	28,421	124,956	562,325
Credit Cards	15,494	78,521	390,834
Other			75,841
<b>Net Balance on Balance Sheet</b>	<b>568,138</b>	<b>583,685</b>	<b>107,556</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## e.10.3. Information on the Group's foreign currency non-performing loans and other receivables:

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
<b>Current Period:</b>			
Period Ending Balance	146,324	119,669	753,304
Specific Provisions (-)	29,458	68,056	753,304
Net Balance on Balance Sheet <sup>(1)</sup>	116,866	51,613	
<b>Prior Period:</b>			
Period Ending Balance	36,505	164,767	504,720
Specific Provisions (-)	7,783	83,119	504,720
Net Balance on Balance Sheet <sup>(1)</sup>	28,722	81,648	

<sup>(1)</sup> In addition to non-performing loans granted as foreign currency, it also includes loans followed under non performing loans TL accounts.

## e.10.4. Information on gross and net non-performing loans and receivables as per customer categories:

	Group III Loans and Receivables with Limited Collectability	Group IV Loans and Receivables with Doubtful Collectability	Group V Uncollectible Loans and Other Receivables
<b>Current Period (Net)</b>			
Loans to Individuals and Corporate (Gross)	712,358	1,187,005	3,298,277
Specific Provisions (-)	144,220	603,320	3,190,721
Loans to Individuals and Corporate (Net)	568,138	583,685	107,556
Banks (Gross)			
Specific Provisions (-)			
Banks (Net)			
Other Loans and Receivables (Gross)			75,841
Specific Provisions (-)			75,841
Other Loans and Receivables (Net)			
<b>Prior Period (Net)</b>			
Loans to Individuals and Corporate (Gross)	569,563	924,153	2,363,723
Specific Provisions (-)	116,801	465,980	2,246,290
Loans to Individuals and Corporate (Net)	452,762	458,173	117,433
Banks (Gross)			
Specific Provisions (-)			
Banks (Net)			
Other Loans and Receivables (Gross)			62,792
Specific Provisions (-)			62,792
Other Loans and Receivables (Net)			

## e.11. Main principles of liquidating for uncollectible loans and other receivables:

In order to ensure the liquidation of non-performing loans, all possibilities evaluated to ensure maximum collection according to the legislation. First of all, administrative initiatives are taken to deal with the borrower. Collection through legal proceedings used if there is no possibility of collection and configuration with the interviews for other receivables.

## e.12. Explanations on write-off policy:

The Bank's general policy for write-offs of loans and receivables under follow-up is to write of such loans and receivables that are proven to be uncollectible in legal follow-up process within the instructions of Tax Procedure Law.

## f. Held to Maturity Investments:

## f.1. Information on held to maturity investments, which are given as collateral or blocked:

As of 31 December 2016, held to maturity investments, which are given as collateral or blocked amount to TL 1,244,279 (31 December 2015: TL 161,812).

## f.2. Information on held to maturity investments, which are subject to repurchase agreements:

As of 31 December 2016, assets held to maturity, which are subject to repurchase agreements amount to TL 2,648,228 (31 December 2015: TL 2,723,082).

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### f.3. Information on government securities held to maturity:

	Current Period	Prior Period
Government Bonds	6,448,990	4,310,652
Treasury Bills		
Other Public Debt Securities		
<b>Total</b>	<b>6,448,990</b>	<b>4,310,652</b>

#### f.4. Information on held-to-maturity investments:

	Current Period	Prior Period
Debt Securities	6,757,758	4,497,417
Quoted on a Stock Exchange	6,263,602	4,016,375
Not Quoted <sup>(1)</sup>	494,156	481,042
Impairment Losses (-)		
<b>Total</b>	<b>6,757,758</b>	<b>4,497,417</b>

<sup>(1)</sup> Indicates unlisted debt securities, and debt securities that have not been traded at the end of the related periods although they are listed.

#### f.5. Movement of held to maturity investments within the period

	Current Period	Prior Period
Beginning Balance	4,497,417	1,391,860
Foreign Exchange Differences Arising on Monetary Assets	37,453	6,736
Purchases During the Year <sup>(1)</sup>	2,927,053	4,564,273
Disposals through Sales and Redemption	(858,288)	(1,545,224)
Impairment Losses (-)		
Valuation Effect	154,123	79,772
<b>Balance at the End of the Period</b>	<b>6,757,758</b>	<b>4,497,417</b>

<sup>(1)</sup> The government bonds with the nominal value of TL 1,342,813 are reclassified to held to maturity investment from available for sale investments in current period.(31 December 2015: TL 3,328,506)

#### g. Information on Associates (Net):

As per the "Communiqué on Preparation of Consolidated Financial Statements of Banks", credit institutions or financial institutions associates are included in the scope of consolidated financial statements. Within this context, credit institutions and financial subsidiaries are accounted in the consolidated financial statements according to TAS 28 - Investments in Associates and Joint Ventures".

g.1. Information on unconsolidated associates: None.

g.2. Information on consolidated associates:

Title	Address (City/Country)	Bank's Share Percentage-If Different, Voting Percentage (%)	Bank's Risk Group Share Percentage (%)
1- Arap Türk Bankası A.Ş.	İstanbul/TURKEY	20.58	79.42

Information on financial statements of associates in the above order:

Total Assets	Shareholders' Equity	Total Tangible Assets	Interest Income <sup>(1)</sup>	Securities Income	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
5,098,787	654,089	25,616	205,861	194	63,229	72,493	

<sup>(1)</sup> Includes interest income on securities.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016g.3. Movement of investments in consolidated associates <sup>(1)</sup>:

	Current Period	Prior Period
Beginning balance	124,575	124,575
Movements during the period		
Purchases <sup>(2)</sup>		
Bonus shares acquired		
Dividends received from the current year profit		
Sales		
Revaluation Increase		
Impairment		
Balance at the end of the period	124,575	124,575
Capital commitments		
Contribution in equity at the end of the period (%)		

<sup>(2)</sup> Includes the information related to associate which is a credit institution in which the Bank has direct shares.

g.4. Sectoral information on consolidated associates and the related carrying amounts <sup>(1)</sup>:

	Current Period	Prior Period
Banks	124,575	124,575
Insurance Companies		
Factoring Companies		
Leasing Companies		
Finance Companies		
Other Financial Participations		
<b>Total</b>	<b>124,575</b>	<b>124,575</b>

<sup>(2)</sup> Includes the information related to associate which is a credit institution in which the Bank has direct shares.

g.5. Consolidated associates traded on a stock exchange: None.

g.6. Consolidated associates disposed of in the current period: None.

g.7. Consolidated associates acquired in the current period: None.

g.8. Other issues related to associates: None.

## h. Information on subsidiaries (Net):

As per the "Communiqué on Preparation of Consolidated Financial Statements of Banks", credit institutions or financial institutions subsidiaries are included in the scope of consolidated financial statements.

## h.1. Information on the significant size of the subsidiaries' equity:

	Insurance Reinsurance Companies	Türkiye Sınai Kalkınma Bankası A.Ş.	İş Gayrimenkul Yatırım Ortaklığı A.Ş.	İş Finansal Kiralama A.Ş.	İş Yatırım Menkul Değerler A.Ş.
<b>COMMON EQUITY TIER I CAPITAL</b>					
Common Equity Tier I Capital Before Deductions	3,451,589	3,161,346	3,045,934	802,166	574,429
Deductions from Common Equity Tier I Capital (-)	102,326	284	124,225	2,031	48,288
<b>Total Common Equity Tier I Capital</b>	<b>3,349,263</b>	<b>3,161,062</b>	<b>2,921,709</b>	<b>800,135</b>	<b>526,141</b>
<b>ADDITIONAL TIER I CAPITAL</b>					
Additional Tier I Capital before Deductions					
Deductions from Additional Tier I Capital (-)	40,432	189	380	1,036	22,838
<b>Total Capital</b>	<b>3,308,831</b>	<b>3,160,873</b>	<b>2,921,329</b>	<b>799,099</b>	<b>503,303</b>
<b>TIER II CAPITAL</b>					
Tier II Capital Before Deductions			178,463		
Deduction from Tier II Capital (-)					
<b>Total Additional Tier II Capital</b>			<b>178,463</b>		
<b>Total Capital and Tier II Capital</b>	<b>3,308,831</b>	<b>3,160,873</b>	<b>3,099,792</b>	<b>799,099</b>	<b>503,303</b>
Deductions from Total Capital and Additional Tier I Capital (-)			369		
<b>CAPITAL</b>	<b>3,308,831</b>	<b>3,160,873</b>	<b>3,099,423</b>	<b>799,099</b>	<b>503,303</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

**h.2.** Information on unconsolidated subsidiaries: None.

**h.3.** Information on consolidated subsidiaries:

	Title	Address (City/Country)	Bank's Share Percentage- If Different, Voting Rights (%) <sup>(1)</sup>	Bank's Risk Group Share Percentage (%)
1-	Anadolu Anonim Türk Sigorta Şirketi	Istanbul/Turkey	43.92	56.08
2-	Anadolu Hayat Emeklilik A.Ş.	Istanbul/Turkey	73.44	26.56
3-	Efes Varlık Yönetim A.Ş.	Istanbul/Turkey	65.77	34.23
4-	İs Investments Gulf Ltd.	Dubai/UAE	69.34	30.66
5-	İş Faktoring A.Ş.	Istanbul/Turkey	43.39	56.61
6-	İş Finansal Kiralama A.Ş.	Istanbul/Turkey	43.32	56.68
7-	İş Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	52.46	47.54
8-	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	34.37	65.63
9-	İş Portföy Yönetimi A.Ş.	Istanbul/Turkey	67.49	32.51
10-	İş Yatırım Menkul Değerler A.Ş.	Istanbul/Turkey	69.34	30.66
11-	İş Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	25.91	74.09
12-	İşbank AG	Frankfurt/Germany	100.00	0.00
13-	JSC İşbank	Moscow/Russia	100.00	0.00
14-	JSC İşbank Georgia	Tbilisi/Georgia	100.00	0.00
15-	Maxis Investments Ltd.	London/England	69.34	30.66
16-	Milli Reasürans T.A.Ş.	Istanbul/Turkey	76.64	23.36
17-	TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	31.50	68.50
18-	Türkiye Sınai Kalkınma Bankası A.Ş.	Istanbul/Turkey	43.67	56.33
19-	Yatırım Finansman Menkul Değerler A.Ş.	Istanbul/Turkey	42.39	57.61

<sup>(1)</sup> Indirect share of the Group is considered as the Parent Bank's share percentage.

Financial statement information related to consolidated subsidiaries in the above order:

	Total Assets	Shareholders' Equity	Total Tangible Assets	Interest Income <sup>(1)</sup>	Securities Income	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value	Additional Shareholders' Equity Required
1	5,720,082	969,089	158,026	284,900	31,321	102,119	74,983	961,000	
2	14,397,472	866,644	193,881	195,546	32,930	191,257	145,883	2,177,520	
3	173,967	16,174	13,061	23,037		(23,348)	15,314		
4	80	80				(475)	(1,220)		
5	3,025,425	128,822	1,439	161,084	1,355	32,939	24,167		
6	7,479,986	830,203	20,918	453,579	2,611	110,827	87,264	668,137	
7	4,887,020	3,161,346	3,743,702	8,938	877	420,511	555,933	1,326,000	
8	258,805	256,161	86	11,199	3,635	1,060	773	111,904	
9	97,092	92,759	1,566	7,650	4,224	16,446	13,079		
10	6,517,901	880,326	103,294	401,154	68,699	33,724	22,408	448,010	
11	235,275	234,634	52	22,328	3,096	19,193	5,912	155,300	
12	5,163,780	458,899	74,256	115,470	8,551	(35,470)	10,206		
13	791,479	226,915	58,297	41,385	2,148	(11,539)	(26,582)		
14	365,266	41,154	3,364	19,051		850	462		
15	84,918	11,655	2,404	11,510		(3,077)	(4,112)		
16	2,822,480	1,335,907	490,521	114,015	28,834	129,243	130,243		
17	437,654	192,900	417,323	480		(26,645)	9,036	98,100	
18	24,875,486	3,143,053	465,749	1,409,679	18,611	435,913	410,590	2,898,700	
19	819,877	71,866	3,321	32,812	2,034	(6,129)	(1,951)		

<sup>(1)</sup> Includes interest income on securities.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016h.4. Movement of investments in subsidiaries <sup>(1)</sup>:

	Current Period	Prior Period
Balance at the Beginning of the Period	4,601,559	4,122,155
Movements in the Period		
Purchases <sup>(2)</sup>	197,332	322,050
Bonus Shares Acquired		
Dividends Received from the Current Year Profit		
Sales		
Revaluation Surplus <sup>(3)</sup>	(194,213)	(157,354)
Impairment		
Balance at the End of the Period	4,604,678	4,601,559
Capital Commitments		
Contribution in equity at the end of the period (%)		

<sup>(1)</sup> Contains the information related to companies subject to consolidation in which Bank directly owns share.

<sup>(2)</sup> TL 103,450 of related amount is comprised of the participation in the cash capital increase of JSC İsbank, TL 36,777 of the participation in initial capital of JSC İsbank Georgia while the rest is due other subsidiaries' capital increase from prior periods' profits through issuance of bonus shares in the current period.

<sup>(3)</sup> Amounts represent the increases and decreases in the market value of subsidiaries quoted on the stock exchange.

h.5. Sectoral information on consolidated subsidiaries and the related carrying amounts <sup>(1)</sup>:

	Current Period	Prior Period
Banks	1,731,014	1,611,609
Insurance Companies	1,833,794	2,042,486
Factoring Companies		
Leasing Companies	185,703	119,241
Finance Companies		
Other Financial Subsidiaries	854,167	828,223
<b>Total</b>	<b>4,604,678</b>	<b>4,601,559</b>

<sup>(1)</sup> Information of the consolidated subsidiaries in which the Bank has direct ownership is presented.

h.6. Consolidated subsidiaries traded on stock exchange <sup>(1)</sup>:

	Current Period	Prior Period
Traded on domestic stock exchanges	3,564,407	3,561,289
Traded on foreign stock exchanges		

<sup>(1)</sup> Information of the consolidated subsidiaries in which the Bank has direct ownership is presented.

**h.7.** Consolidated subsidiaries disposed of in the current period: None.

**h.8.** Subsidiaries acquired in the current period: None.

**h.9.** Other issues on subsidiaries:

The capital of TSKB Sürdürülebilirlik Danışmanlığı A.Ş. has been increased to TL 1,240 by increasing amount of TL 1,000 on 20 June 2016 registry date. As a result of this capital increase, TSKB, which owns indirect shares, owns 80.65% of direct shares.

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. participated in the capital increase of subsidiary of Numnum Food and Beverage Inc. dated 22 December 2016 that took place with other partners having limited rights and the share in the company increased after the transaction amounting of TL 10,000 to 83.57%.

To increase revenues and diversify the portfolio, in accordance with investment strategy and considering the synergy to be created as a result, the merger negotiations have begun within the framework of the relevant legislative terms between İş Gayrimenkul Yatırım Ortaklığı A.Ş. and TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.

## i. Information on jointly controlled entities (Net):

**i.1.** Unconsolidated jointly controlled entities: None.

Jointly Controlled Entities	The Parent Bank's Share	The Share of Group	Current Asset	Fixed Asset	Long-term Liability	Income	Expense
Anavarza Otelcilik A.Ş.		50%	2,761	169	275	10,878	11,426
Adana Otel Projesi Adi Ortaklığı		50%	1,851	12,389		1,354	3,774
Kanyon Yön. İşl. ve Paz. Ltd. Şti.		50%	10,425	2,122	1,454	42,533	41,184

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### i. 2. Consolidated jointly controlled entities:

As per the "Communiqué on Preparation of Consolidated Financial Statements of Banks", the bank prepares its consolidated financial statements by taking into account jointly controlled entities which are credit institutions or financial institutions. There are no jointly controlled entities which are not taken into account through equity method in the consolidated financial statements whose natures are credit institutions or financial institutions.

#### j. Information regarding finance lease receivables (Net):

##### j.1. Presentation of finance lease receivables according to their remaining maturities:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 Year	2,472,802	2,168,581	1,347,009	1,130,367
1-4 Years	944,026	829,443	2,053,299	1,814,162
More than 4 Years	915,672	796,340	279,698	252,006
<b>Total</b>	<b>4,332,500</b>	<b>3,794,364</b>	<b>3,680,006</b>	<b>3,196,535</b>

##### j.2. Information regarding net investments made on finance lease:

	Current Period	Prior Period
Gross Finance Lease Investment	4,332,500	3,680,006
Unearned Finance Revenue from Finance Lease (-)	538,136	483,471
<b>Net Finance Lease Investment</b>	<b>3,794,364</b>	<b>3,196,535</b>

##### j.3. Presentation of operating lease receivables according to their remaining maturities:

As at 31 December 2016, the remaining maturities of the Group's operating lease receivable is less than 1 year the total amount is TL 7,878. (31 December 2015: TL 2,776).

#### k. Explanations on derivative financial assets held for risk management:

##### k.1. Positive differences on derivative financial instruments held for hedging purposes

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedges		272		4,093
Cash Flow Hedges				
Net Foreign Investments Hedges				
<b>Total</b>		<b>272</b>		<b>4,093</b>

The face values and the net fair values, recognized in the balance sheet, of the derivative financial instruments held for risk management purposes, are summarized below:

	Current Period			Prior Period		
	Face Value	Asset	Liability	Face Value	Asset	Liability
Interest Rate Swaps	7,747,800	272	51,433	4,689,900	4,093	5,799
FC	7,747,800	272	51,433	4,689,900	4,093	5,799
TL						

##### k.2. Information on fair value hedge accounting:

Current Period:

Hedging Item	Hedged Item	Type of Risk	Fair Value Change of Hedged Item <sup>(1)</sup>	Fair Value of Hedging Instrument <sup>(1)</sup>		Income St Effect (Profit/Loss Through Derivative Financial Instruments)
				Asset	Liability	
Interest Rate Swap Transactions	Fixed Rate Issued Eurobond	Interest Rate Risk	44,374	49,238		(4,864)
Interest Rate Swap Transactions	Fixed Rate Loans Used	Interest Rate Risk	3,880	4,378		(498)

<sup>(1)</sup> The fair value of hedged item and hedging instrument are presented as net market value excluding credit risk and accumulated interest.

Prior Period:

Hedging Item	Hedged Item	Type of Risk	Fair Value Change of Hedged Item <sup>(1)</sup>	Fair Value of Hedging Instrument <sup>(1)</sup>		Income St Effect (Profit/Loss Through Derivative Financial Instruments)
				Asset	Liability	
Interest Rate Swap Transactions	Fixed Rate Issued Eurobond	Interest Rate Risk	3,814		5,980	(2,166)
Interest Rate Swap Transactions	Fixed Rate Loans Used	Interest Rate Risk	376		1,461	(1,085)

<sup>(1)</sup> The fair value of hedged item and hedging instrument are presented as net market value excluding credit risk and accumulated interest.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## I. Information on tangible assets:

Current Period	Real Estates	Construction in Progress	Vehicles	Other Tangible Assets	Total
<b>Prior Period</b>					
Cost	4,922,091	220,158	21,563	2,297,582	7,461,394
Accumulated Depreciation	(12,511)		(14,243)	(1,565,978)	(1,592,732)
<b>Net Book Value</b>	<b>4,909,580</b>	<b>220,158</b>	<b>7,320</b>	<b>731,604</b>	<b>5,868,662</b>
<b>Current Period</b>					
Net Book Value at the Beginning of the Period	4,909,580	220,158	7,320	731,604	5,868,662
Change During the Period (Net) <sup>(1)(2)</sup>	(49,578)	96,961	1,614	184,560	233,557
Depreciation	(34,895)		(2,492)	(223,105)	(260,492)
Impairment <sup>(3)</sup>	(5,038)				(5,038)
Net Currency Translation Differences <sup>(2)</sup>	10,313		863	13,434	24,610
Effects of Subsidiaries Subject to Consolidation					
Cost at Period End	4,875,297	317,119	22,204	2,461,993	7,676,613
Accumulated Depreciation at Period End	(44,915)		(14,899)	(1,755,500)	(1,815,314)
<b>Net Book Value at the End of the Current Period</b>	<b>4,830,382</b>	<b>317,119</b>	<b>7,305</b>	<b>706,493</b>	<b>5,861,299</b>

<sup>(1)</sup> As at the balance sheet date, the Bank's book value of tangible assets acquired through financial leasing TL 8 and there is no addition in the current period. Book value of tangible assets which is obtained in return of receivables during the year is TL 171,221.

<sup>(2)</sup> Includes the movements in cost and accumulated depreciation items.

<sup>(3)</sup> There are the impairment releases related to the real estates, whose fair values have increased due to their renewed appraisals.

## m. Information on Intangible Assets:

Explanation regarding consolidation goodwill that is included in intangible assets is given in Section Three under the caption of "XIII. Explanations on Goodwill and Other Intangible Assets." The table consisting movements of other intangible assets are presented below.

	Current Period	Prior Period
Net Book Value at the Beginning of the Period	470,787	345,523
Change During the Period (Net) <sup>(1)</sup>	339,982	337,733
Depreciation	(276,658)	(213,219)
Impairment		
Currency Translation Differences <sup>(2)</sup>	9,398	127
Effects of Subsidiaries subject to Consolidation		623
Cost at Period End	1,602,889	1,249,013
Accumulated Depreciation at Period End	(1,059,380)	(778,226)
<b>Net Book Value at the End of the Period</b>	<b>543,509</b>	<b>470,787</b>

<sup>(1)</sup> The balance includes the movements in cost and accumulated depreciation items.

## n. Information on investment property:

Investment properties are properties that the Group holds to earn rentals. Explanations on these subjects are given in Section Three Note XIV.

	Current Period	Prior Period
<b>Net Book Value at the Beginning of the Period</b>	<b>2,962,675</b>	<b>2,698,312</b>
Change During the Period (Net)	123,877	7,923
Revaluations Surplus/Deficit	286,899	256,440
<b>Net Book Value at the End of the Period</b>	<b>3,373,451</b>	<b>2,962,675</b>

## o. Information on deferred tax asset:

As of 31 December 2016, the Parent Bank and the other consolidated Group companies has deferred tax asset amounting to TL 591,684. Such deferred tax asset is calculated based on the temporary differences between the book value of assets and liabilities and their tax basis measured as per the prevailing tax regulation. When the items comprising the temporary differences are followed under equity, the related tax asset/liability is directly recognized under equity items.

	Current Period	Prior Period
Tangible Assets Base Differences	149,231	146,072
Provisions <sup>(1)</sup>	(749,332)	(734,587)
Finance Lease Income Accruals	4,018	3,393
Valuation of Financial Assets	30,456	4,635
Other	(26,057)	(11,374)
<b>Net Deferred Tax (Asset)</b>	<b>(591,684)</b>	<b>(591,861)</b>

<sup>(1)</sup> Comprised of employee termination benefits, actual and technical deficits of the pension fund, insurance technical provisions, the provisions for credit card bonus points, and other provisions.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

The movement of deferred tax asset is as follows:

	Current Period	Prior Period
Balance at the Beginning of the Period	585,962	620,660
Deferred Tax Benefit/(Charge) (Net)	(230,413)	(321,727)
Deferred Tax Recognized under Equity	209,401	287,753
Foreign Currency Difference	3,741	(724)
<b>Deferred Tax Asset <sup>(1)</sup></b>	<b>568,691</b>	<b>585,962</b>

<sup>(1)</sup> In the current period consolidated financial statements, deferred tax asset amounts to TL 591,684 (31 December 2015: TL 591,861) and the deferred tax liability amounts to TL 22,993 (31 December 2015: TL 5,899); the movement table states the net balance. Explanations on deferred tax liability are given in Section Five Note II.2.

#### p. Information on assets held for sale and discontinued operations:

	Current Period	Prior Period
<b>Net Balance at the Beginning of the Period</b>	<b>67,319</b>	<b>65,993</b>
Change during the periods (Net)	35,702	2,007
Amortized Cost	(1,606)	(680)
Foreign Currency Difference	5,399	(1)
<b>Net Balance at the End of the Period</b>	<b>106,814</b>	<b>67,319</b>

The Group has no discontinued operations. The assets classified as "Assets Held for Sale" of the Group consist of real estates. Announcements about the real estate's subject to sale are also made by means of newspaper advertisements and similar media. Those real estates of the Parent Bank subject to sale are also announced on the Parent Bank's web site.

#### r. Information on Other Assets of the Group:

The "other assets" item does not exceed 10% of total assets.

## II. DISCLOSURES AND FOOTNOTES ON CONSOLIDATED LIABILITIES

### a. Information on Deposits:

#### a.1. The maturity structure of deposits (Current Period):

	Demand	7 Day s Notice	Up to 1 Month	1-3 Months	3-6 Months	6 Months to 1 Year	1 Year and Over	Accumulated Deposits	Total
Savings Deposits	12,432,724		2,618,575	44,429,588	2,038,437	483,525	444,337	5,976	62,453,162
Foreign Currency Deposits	18,371,953		9,455,568	36,662,554	3,477,634	3,192,586	11,676,499	830	82,837,624
Residents in Turkey	15,547,579		8,273,465	31,475,713	2,554,946	1,092,325	2,785,494	778	61,730,300
Residents Abroad	2,824,374		1,182,103	5,186,841	922,688	2,100,261	8,891,005	52	21,107,324
Public Sector Deposits	262,506		12,347	26,636	2,047	68	30		303,634
Commercial Deposits	7,958,931		4,203,421	7,697,082	362,602	162,582	55,186		20,439,804
Other Institutions Deposits	359,814		171,854	1,515,076	1,190,371	1,137	3,267		3,241,519
Precious Metals Deposits	2,484,982					329,301	18,545		2,832,828
Interbank Deposits	2,730,701		1,379,341	1,597,352	95,308	686,700	561,465		7,050,867
The Central Bank of Turkey	9								9
Domestic Banks	8,479		946,756	261,714			2,186		1,219,135
Foreign Banks	2,049,362		432,585	1,335,638	95,308	686,700	559,279		5,158,872
Participation Banks	672,851								672,851
Other									
<b>Total</b>	<b>44,601,611</b>		<b>17,841,106</b>	<b>91,928,288</b>	<b>7,166,399</b>	<b>4,855,899</b>	<b>12,759,329</b>	<b>6,806</b>	<b>179,159,438</b>

#### a.2. The maturity structure of deposits (Prior Period):

	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6 Months to 1 Year	1 Year and Over	Accumulated Deposits	Total
Savings Deposits	9,988,532		2,095,984	37,743,923	2,050,615	304,894	381,872	3,000	52,568,820
Foreign Currency Deposits	15,759,686		8,190,878	35,225,094	3,678,792	3,171,227	8,039,205	588	74,065,470
Residents in Turkey	13,664,362		6,940,348	30,588,635	2,448,254	626,419	2,049,771	581	56,318,370
Residents Abroad	2,095,324		1,250,530	4,636,459	1,230,538	2,544,808	5,989,434	7	17,747,100
Public Sector Deposits	536,863		10,475	19,631	2,379	210	32		569,590
Commercial Deposits	6,280,106		1,972,678	4,533,235	1,210,310	66,037	18,901		14,081,267
Other Institutions Deposits	256,734		44,558	1,287,059	1,495,502	886	3,199		3,087,938
Precious Metals Deposits	1,653,919					238,250	14,000		1,906,169
Interbank Deposits	763,508		2,813,015	1,557,093	245,761	212,904	2,329,755		7,922,036
The Central Bank of Turkey	16								16
Domestic Banks	3,275		2,186,759	336,808	2,055				2,528,897
Foreign Banks	555,055		626,256	1,220,285	243,706	212,904	2,329,755		5,187,961
Participation Banks	205,162								205,162
Other									
<b>Total</b>	<b>35,239,348</b>		<b>15,127,588</b>	<b>80,366,035</b>	<b>8,683,359</b>	<b>3,994,408</b>	<b>10,786,964</b>	<b>3,588</b>	<b>154,201,290</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## a.3. Savings deposits which are under the guarantee of Savings Deposits Insurance Fund exceeding the insurance limit:

	Under the Guarantee of Savings Deposits Insurance Fund		Exceeding the Limit of Deposit Insurance Fund	
	Current Period	Prior Period	Current Period	Prior Period
<b>Savings Deposits</b>				
Savings Deposits	32,081,971	28,089,774	29,729,980	23,980,079
Foreign Currency Savings Deposits	15,020,817	14,553,082	36,013,657	31,251,723
Other Deposits in the Form of Savings Deposits	1,541,203	1,161,789	1,171,209	729,718
Foreign Branches' Deposits Under Foreign Authorities' Insurance	4,627,575	3,363,594	351,282	225,068
Off-shore Banking Regions' Deposits Under Foreign Authorities Insurance			36,739	136,293

## a.4. Savings deposits which are not under the guarantee of deposit insurance fund:

	Current Period	Prior Period
Foreign Branches' Saving Deposits and Other Accounts	722,901	702,026
Deposits and Other Accounts held by Main Shareholders and their Relatives		
Deposits and Other Accounts of the Chairman and Members of Board of Directors, Chief Executive Officer, Senior Executive Officers and their Relatives	14,922	11,586
Deposits and Other Accounts Covered by Assets Generated Through the Offenses Mentioned in Article 282 of the Turkish Criminal Code Numbered 5237 and Dated 26 September 2004		
Deposits in the Banks to be Engaged Exclusively in Off-shore Banking in Turkey		

## b. Information on Derivative Financial Liabilities Held for Trading:

Negative differences on derivative financial liabilities held for trading:

Derivative Financial Liabilities Held for Trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	126,719	82,245	20,878	86,817
Swap Transactions	481,028	418,495	409,662	566,393
Futures	9	301	46	133
Options	1,290	160,062	1,821	117,011
Other		34,936	1,799	1,588
<b>Total</b>	<b>609,046</b>	<b>696,039</b>	<b>434,206</b>	<b>771,942</b>

## c. Information on Funds Borrowed:

## c.1. Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Funds borrowed from the Central Bank of Turkey		356,271		
Domestic banks and institutions	2,601,611	1,603,053	1,857,367	1,208,870
Foreign banks, institutions and funds	1,301,696	46,303,448	2,715,605	39,686,692
<b>Total</b>	<b>3,903,307</b>	<b>48,262,772</b>	<b>4,572,972</b>	<b>40,895,562</b>

## c.2. Maturity analysis of funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	3,016,346	4,973,633	2,866,394	3,802,260
Medium and Long-term	886,961	43,289,139	1,706,578	37,093,302
<b>Total</b>	<b>3,903,307</b>	<b>48,262,772</b>	<b>4,572,972</b>	<b>40,895,562</b>

## c.3. Information on funds borrowed:

Information on funds received through syndicated loans and securitization deals, which take a significant place among funds borrowed, are given below:

Syndicated loans:

Date of Use	Funds Borrowed	Maturity
March 2016	USD 24,314,800 + EUR 79,530,000	1 year
May 2016	USD 462,000,000 + EUR 836,000,000	1 year
July 2016	USD 12,500,000 + EUR 237,500,000	1 year
September 2016	USD 302,000,000 + EUR 661,000,000	1 year

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### Securitization deals:

The Parent Bank obtained funds by way of putting on securitization deals all its claims and receivables based on diversified payment rights in USD, EUR and GBP through its SPV TIB Diversified Payment Rights Finance Company.

Information on funds received through securitization is given below:

Date	Special Purpose Vehicle (SPV)	Amount	Final Maturity	Remaining Debt Amount as at 31 December 2016
October 11	TIB Diversified Payment Rights Finance Company	EUR 60,000,000	7 years	EUR 24,000,000
June 12	TIB Diversified Payment Rights Finance Company	USD 225,000,000	5 years	USD 56,249,997
June 12	TIB Diversified Payment Rights Finance Company	EUR 125,000,000	12 years	EUR 96,875,000
December 13	TIB Diversified Payment Rights Finance Company	USD 50,000,000	5 years	USD 33,333,333
December 13	TIB Diversified Payment Rights Finance Company	EUR 185,000,000	5-12 years	EUR 135,000,000
December 14	TIB Diversified Payment Rights Finance Company	USD 250,000,000	5-14 years	USD 250,000,000
March 15	TIB Diversified Payment Rights Finance Company	USD 555,000,000	5-15 years	USD 555,000,000
October 15	TIB Diversified Payment Rights Finance Company	USD 221,200,000	10 years	USD 221,200,000
October 16	TIB Diversified Payment Rights Finance Company	USD 240,000,000	5-12 years	USD 240,000,000

#### Other:

The Bank has obtained funds in August 2014 with an amount of USD 500 million and 10 years maturity, through securitization of future flow transactions.

#### d. Information on Debt Securities Issued (Net):

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	6,574,877	206,424	7,461,176	1,927,381
Bonds	1,323,178	20,556,202	1,151,077	13,539,924
<b>Total</b>	<b>7,898,055</b>	<b>20,762,626</b>	<b>8,612,253</b>	<b>15,467,305</b>

#### e. Concentration of the liabilities of the Group:

Group's liabilities 48% are comprised of deposits, 14% are comprised of funds borrowed, 8% are comprised subordinated debt and marketable securities issued and 5% are comprised of funds provided from repurchase agreements. Deposits are distributed among a large variety of customers with different characteristics. The borrowings, on the other hand, are comprised of various funds obtained from financial institutions through syndication, securitization, post-financing and money market operations. No risk concentration exists related to the Group's liabilities.

#### f. Information on Other Liabilities:

Other liabilities do not exceed 10% of the balance sheet total.

#### g. Information on Lease Payables (Net):

The group does not have any liabilities resulting from finance lease transactions.

#### h. Information on Derivative Financial Liabilities Held for Risk Management:

Negative valuation differences on derivative financial instruments held for hedging purposes:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair Value Hedges		51,433		5,799
Cash Flow Hedges				
Net Foreign Investment Hedges				
<b>Total</b>		<b>51,433</b>		<b>5,799</b>

#### i. Information on Provisions:

##### i.1. Information on general loan loss provisions:

	Current Period	Prior Period
<b>General Loan Loss Provisions</b>	<b>3,286,093</b>	<b>3,015,392</b>
Provision for Group I Loans and Receivables	2,672,241	2,548,121
Provision for Group II Loans and Receivables	258,420	181,112
Provision for Non-cash Loans	213,336	168,605
Other	142,096	117,554

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## i.2. Reserves for employee benefits:

According to the related regulation and the collective bargaining agreements, the Parent Bank is obliged to pay employee termination benefits to employees who retire, die, quit for their military service obligations, who have been dismissed as defined in the related regulation or to the female employees who have voluntarily quit within one year after the date of their marriage. In accordance with the related regulations, the amount of employee termination benefits is TL 4,297.21 (full TL amount as of 31 December 2016), which is one month salary for each service year and cannot exceed the base salary ceiling for employee termination benefits. A provision for severance pay to allocate that employees need to be paid upon retirement is TL 641,934 as of 31 December 2016. (31 December 2015: TL 566,473).

The main actuarial assumptions used in the calculation of the employee termination benefits are as follows:

- Discount and inflation rates, which vary by years, were used for the calculation and the real rate of increase in salaries was taken as 2%.
- TL 4,297.21 (full TL amount) salary ceiling, which was effective as at 31 December 2016 was taken into account for the calculations.
- The age of retirement is considered as the earliest age possible that an individual can retire.
- CSO 1980 table is used for the mortality rate for female and male employees

The movements related to provision for employee termination benefits are given below:

	Current Period	Prior Period
Present value of defined benefit obligation at the beginning of the period	566,473	482,111
Service Cost	46,821	40,153
Interest Cost	58,399	40,114
Benefits paid	(32,368)	(29,878)
Loss/(Gain) due to Settlements/Reductions/Terminations	3,331	5,083
Actuarial loss/(gain)	(722)	28,890
<b>Defined benefit obligation at the end of the period</b>	<b>641,934</b>	<b>566,473</b>

In addition to the employee termination benefits, the Parent Bank and consolidated Group companies also allocate provisions for the unused vacation pay liability. As at 31 December 2016, provision for unused vacation pay is amounting to TL 56,837 (31 December 2015: TL 49,176).

## i.3. Provisions for exchange losses in the principal amount of foreign currency indexed loans:

Since foreign currency indexed loans are followed based on the rates on the lending date, the Parent Bank incurs a loss if the exchange rates decrease and makes profit if the exchange rate increases. As of 31 December 2016, provision amount for the currency evaluation losses in the principal amount of foreign currency indexed loans is TL 398 and this amount is offset against foreign currency indexed loan balance in the financial statements.

## i.4. Specific provisions for non-cash loans, which are not indemnified and not converted into cash:

As at 31 December 2016, TL 120,894 provision (31 December 2015: TL 81,143) is allocated for the non-cash loans of companies whose loans are followed under non-performing loans accounts.

## i.5. Information on other provisions:

## i.5.1. Provisions for potential risks:

The Parent Bank management set aside general provision amounting TL 800,000 which was recognized as expense in the prior periods, for the possible result of the negative circumstances which may arise from any changes in economy or market conditions.

## i.5.2. Liabilities arising from retirement benefits:

Liabilities of pension funds founded as per the Social Security Institution:

Within the scope of the explanations given in Section Three Note XX, in the actuarial report which was prepared as of 31 December 2016 for Türkiye İş Bankası A.Ş. Emekli Sandığı Vakfı (İşbank Pension Fund), of which each Bank employee is a member, and which has been established according to the provisional Article 20 of the Social Security Act No. 506, the amount of actuarial and technical deficit stands at TL 2,389,013 (31 December 2015: TL 2,175,902). In this context, the provision with that amount has been reflected in the financial statements. According to the actuarial report as at 31 December 2016 of Milli Reasürans T.A.Ş., besides the Parent Bank, the amount of actuarial and technical deficit was determined to be TL 29,685 (31 December 2015: TL 28,359). In this context, the additional provision with an amount of TL 1,326 has been reflected in the financial statement.

The above mentioned actuarial audit, which was made in accordance with the principles of the related law, measures the cash value of the liability as of 31 December 2016, in other words, it measures the amount to be paid to the Social Security Institution by the Parent Bank. Actuarial assumptions used in the calculation are given below:

- 9.8% technical deficit interest rate is used.
- 34.5% total premium rate is used.
- CSO 1980 woman/man mortality tables are used.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

Below table shows the cash values of premium and salary payments of the Parent Bank as of 31 December 2016, taking the health expenses within the Social Security Institution limits into account.

	Current Period	Prior Period
Net Present Value of Total Liabilities Other Than Health	(6,939,359)	(6,252,749)
Net Present Value of Long Term Insurance Line Premiums	3,151,378	2,799,494
<b>Net Present Value of Total Liabilities Other Than Health</b>	<b>(3,787,981)</b>	<b>(3,453,255)</b>
Net Present Value of Health Liabilities	(921,012)	(773,842)
Net Present Value of Health Premiums	1,790,556	1,590,621
<b>Net Present Value of Health Liabilities</b>	<b>869,544</b>	<b>816,779</b>
<b>Pension Fund Assets</b>	<b>529,424</b>	<b>460,574</b>
<b>Amount of Actuarial and Technical Deficit</b>	<b>(2,389,013)</b>	<b>(2,175,902)</b>

The assets of the pension fund are as follows.

	Current Period	Prior Period
Cash and Cash Equivalents	418,632	357,448
Securities Portfolio	79,915	59,390
Other	30,877	43,736
<b>Total</b>	<b>529,424</b>	<b>460,574</b>

On the other hand, after the transfer, the currently paid health benefits will be revised within the framework of the Social Security Institution legislation and related regulations.

**i.5.3.** Provision of credit cards and promotion of banking services applications: The Bank has recognized provisions amounting to TL 77,361 for the amount which is recognized within the framework of credit card expenses of credit card customers or promotions for banking services. (31 December 2015: TL 79,159)

**i.5.4.** As mentioned public disclosures of the Bank on 31 December 2012 and 19 December 2013; an inspection has been made by the inspectors of Tax Inspection Board to "Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı" ("İşbank Supplementary Pension Fund"), which was founded as per the provisions of the Turkish Commercial and Civil Codes, regarding the payments that fulfill İşbank's liabilities within the framework of the Articles of Foundation of the Pension Fund and the relevant legislation.

As a result of this investigation, tax audit reports were prepared for the years 2007, 2008, 2009, 2010, 2011 claiming that the aforementioned liabilities should be taxed in terms of wage base, thus, they should be subject to withholding tax and stamp duty. According to this report, the total amount of tax and penalties notified to Bank was TL 74,353 for 2007 and 2008; and as of reporting date TL 151,899 for 2009, 2010 and 2011 and it was stated that the Bank applied to tax courts to cancel these tax notifications and some of the court decisions were determined in favor of the Bank and some others were determined against the Bank.

In this context, for the finalized decisions of Regional Administrative Courts related to the years 2007 and 2008 against the Bank, the Bank applied to the Constitutional Court. According to decisions made by Constitutional Court up to reporting date, there is no predictability in legal conformity for taxing the Bank's contributions to the Pension Fund in terms of wage base and for this reason it was accepted that property right of the Bank has been violated according to the 35<sup>th</sup> article of Constitution. The Court decided that the amount of tax, penalties and default interest which was paid by the Bank should be paid back to the Bank as for compensation with its legal interest.

Besides of the Bank, an inspection was conducted by Tax Audit Committee Inspectors regarding to the contribution obligations mentioned above for the period 2007-2011 on Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı Mensupları which is founded according to Turkish Commercial Law and Civil Law, owned by "Türkiye Sınai Kalkınma Bankası A.Ş.", "Milli Reasürans T.A.Ş.", and Anadolu Anonim Türk Sigorta Şirketi. As a result of the issued report that companies a total of TL 33 million (exact amount) tax penalty notices were notified. Assessments made on the subject by the company's application in accordance with the legislation, which was suspended for Tax Administration concluded that the lack of legal basis of assessment and said assessment were filed in court against the various tax. A number of cases concluded in favor of the Bank, another part of lawsuits concluded against the Bank but portion of the case has not been concluded yet.

According to the decisions of the Constitutional Court mentioned above, it is expected that the cases related to the periods 2007, 2008, 2009, 2010 and 2011 will conclude in favor of the Bank and group companies. In this context, the provisions amounting to TL 217,265 which had been allocated for the mentioned periods, reversed. Within the scope of the legal process, lawsuits amounted TL 17,470 regarding total of 6 periods in 2012 and 2013 have been resulted against the Group. Except for the lawsuits related to the same period and legal process of subsequent periods are still in progress.

In this period, group companies act together with the parent bank. Judicial process is still in progress for the periods after 2012. Therefore TL 44,153 (31 December 2015: TL 39,550) provision expense is booked in the current period and transferred into result accounts.

**h.5.5.** In 1993, Dışbank A.Ş. shares which were owned by the Bank were sold to Lapis Holding A.Ş. In 2008, it was claimed that USD 52.6 million of the amount, which was paid upfront within the context of the sale agreement, had been provided from the funds of the insolvent TYT Bank A.Ş. by the buyer and payment of USD 52.6 million as well as the interest to be calculated to the Savings Deposit Insurance Fund (SDIF) was demanded.

The administrative actions initiated by the SDIF in 2008 were revoked by Council of State Administrative Law Chambers 13<sup>th</sup> upon the application of the Bank. The decisions which were in favour of the Bank were reversed by Plenary Session of the Law Chamber upon the appeal of the SDIF. Council of State Administrative Law Chambers 13<sup>th</sup> decided to reject the applications of the Bank in January 2016 due to their obligation to obey the decisions of reversal.

After the aforementioned court decisions, although the legal process was still in progress, the collection procedures were carried out within the context of Law No. 6183 and TL 298,466, including the default interest, was collected from the Bank by the SDIF on 25 March 2016. In current period provision expense amounting to TL 137,727 has been transferred into result accounts in addition to the provisioning of previous years amounting to TL 160,739.

As a part of the legal process, individual application to the Constitutional Court of Republic of Turkey has been made by the Bank and conclusion of the application is anticipated. The legal process is continued within the framework of the ongoing lawsuits and other available legal options.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

**h.5.6.** Except the provisions which are stated above, other provisions contain provision for expenses, provisions for ongoing lawsuit and other provisions set aside for miscellaneous reasons.

**j. Information on Tax Liability:****j.1.** Information on current tax liability:**j.1.1.** Information on tax provision:

Explanations in relation to taxation and tax calculations were stated in Note XXI of Section 3. The remaining corporate tax liability of the Parent Bank and the consolidated companies after the deduction of the temporary tax amount stands at TL 88,519 as of 31 December 2016.

**j.1.2.** Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	88,519	359,959
Tax on Securities Income	153,220	141,073
Tax on Real Estate Income	3,896	3,697
Banking Insurance Transaction Tax	160,155	139,015
Foreign Exchange Transaction Tax	135	68
Value Added Tax Payable	14,805	12,634
Other	62,646	59,923
<b>Total</b>	<b>483,376</b>	<b>716,369</b>

**j.1.3.** Information on premiums:

	Current Period	Prior Period
Social Security Premiums - Employees	2,066	1,646
Social Security Premiums - Employer	2,536	2,057
Bank Pension Fund Premiums - Employees		
Bank Pension Fund Premiums - Employer		
Pension Fund Membership Fees and Provisions - Employees	2,766	2,414
Pension Fund Membership Fees and Provisions - Employer	5	2
Unemployment Insurance - Employees	1,517	1,343
Unemployment Insurance - Employer	3,006	2,662
Other	6	2
<b>Total</b>	<b>11,902</b>	<b>10,126</b>

**j.2.** Information on deferred tax liabilities:

The Parent Bank and the consolidated Group companies have TL 22,993 deferred tax liability as of 31 December 2016. The related deferred tax liability is calculated over the temporary differences between the book values of assets and liabilities in the records and their tax base values calculated according to tax.

	Current Period	Prior Period
Tangible Assets Tax Base Differences	37,610	27,085
Provisions	(19,374)	(13,166)
Valuation of Financial Assets	3,686	368
Other	1,071	(8,388)
<b>Net Deferred Tax Liability</b>	<b>22,993</b>	<b>5,899</b>

**k. Information on payables for assets held for sale and discontinued operations:**

The Group does not have any payables for assets held for sale and discontinued operations.

**l. Explanations on subordinated debts:**

As of 24 October 2012, the Bank issued 10 year-term bond with a nominal value of USD 1,000,000,000 and as of 10 December 2013 issued 10 year-term bond with a nominal value USD 400,000,000 which are both have the characteristic of subordinated loans for the purpose of making available to the individuals and legal persons who are resident abroad. Interest rates of aforementioned bonds are 6.00% and 7.85% respectively.

The bonds mentioned are amounting to TL 4,930,016 (31 December 2015: TL 4,047,133).

**m. Information on consolidated shareholders' equity:****m.1.** Presentation of paid-in capital:

	Current Period	Prior Period
Common shares	4,499,970	4,499,970
Preferred shares	30	30
<b>Total</b>	<b>4,500,000</b>	<b>4,500,000</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

m.2. Explanation as to whether the registered share capital system ceiling is applicable at bank, if so, the amount of registered share capital:

Capital System	Paid-in Capital	Ceiling
Registered Capital System	4,500,000	10,000,000

m.3. The capital increase made in current period: None.

m.4. Capital increase through transfer from capital reserves during the current period: None.

m.5. Significant commitments of the Parent Bank related to capital expenditures within the last year and the following quarter, the general purpose thereof, and the estimation of funds required for them: There are no capital commitments.

m.6. Information regarding the shares of the company acquired; Parent bank and group companies did not acquired their own share.

m.7. Previous periods' indicators related to income, profitability and liquidity, and the estimated effects of forecasts, which are to be made by taking into consideration the uncertainties of these indicators, on the Group's equity: The Parent Bank's and the Group companies' balance sheets are managed in a prudent way to ensure that the effect of risks arising from interest rates, exchange rates and loans is at the lowest level.

m.8. Privileges Granted to Shares:

Turkish Commercial Law and related registration are kept conditionally;

Group (A) shares each with a nominal value of 1 Kurus have the privileges of;

- receiving 20 times the number of shares in the distribution of bonus shares issued from conversion of extraordinary and revaluation reserves generated in accordance with the relevant laws (Article 18 of the Articles of Incorporation),
- exercising the preference rights as 20 times (Article 19 of the Articles of Incorporation), and

Despite having a lower nominal value, Group (B) shares, each with a nominal value of 1 Kurus, have the same rights with the Group (C) shares having a nominal value of 4 Kurus each. Furthermore, Group (A) and (B) shares, each with a nominal value of 1 Kurus are granted privileges in distribution of profits pursuant to Article 58 of the Articles of Incorporation.

m.9. Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	FC	TL	FC
Associates, Subsidiaries and Jointly Controlled Entities	3,276,518		2,219,941	
Valuation Difference	3,276,518		2,219,941	
Foreign Exchange Differences				
Financial Assets Available for Sale	(1,288,015)	(572,956)	(1,028,141)	44,411
Valuation Difference	(1,615,920)	(686,121)	(1,285,837)	65,595
Deferred Tax Effect on Valuation	326,080	113,165	256,652	(21,184)
Foreign Exchange Differences	1,825		1,044	
<b>Total</b>	<b>1,988,503</b>	<b>(572,956)</b>	<b>1,191,800</b>	<b>44,411</b>

n. Explanations on Non-controlling Interest:

	Current Period	Prior Period
Paid-in Capital	2,479,754	2,298,561
Share Premium	5,405	5,405
Marketable Securities Revaluation Reserve	242,885	245,383
Tangible Assets Revaluation Reserve	314,839	327,990
Bonus Shares Obtained from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)	1,179	1,179
Other Reserves	(2,086)	(1,389)
Legal Reserves	279,369	248,676
Statutory Reserves	53,344	49,792
Extraordinary Reserves	338,854	299,832
Other Profit Reserves	(5,644)	(3,834)
Prior Years' Profit/Loss	604,330	617,621
Current Year Profit/Loss <sup>(1)</sup>	738,163	471,968
<b>Period Ending Balance</b>	<b>5,050,392</b>	<b>4,561,184</b>

<sup>(1)</sup> Difference between effective and direct shareholding rate was TL 54,261 in the current period (31 December 2015: TL 63,037).

### III. DISCLOSURES AND FOOTNOTES ON CONSOLIDATED OFF-BALANCE SHEET ITEMS

a. Explanations to Liabilities Related to Off-Balance Sheet Items:

a.1. Types and amounts of irrevocable loan commitments:

Commitment for customer credit card limits amounts to TL 22,217,478 and commitment to pay for cheque leaves amounts to TL 5,776,407. The amount of commitment for the forward purchase of assets is TL 2,288,999 and for the forward sale of assets is TL 2,276,586.

## Financial Information and Risk Management

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

a.2. The structure and amount of probable losses and commitments resulting from off-balance sheet items, including those below:

As at 31 December 2016, the Group's provisions for indemnified non-cash loans balance is TL 120,894 (31 December 2015: TL 81,143) which is allocated for the non-cash loans of companies whose loans are followed under "Non-performing Loans" accounts. Commitments are shown in the table of "off-balance sheet items".

a.3. Guarantees, bank acceptances, collaterals that qualify as financial guarantees, and non-cash loans including other letters of credit:

	Current Period	Prior Period
Bank Acceptances	2,579,744	955,580
Letters of Credit	12,983,418	10,906,494
Other Guarantees	1,405,754	1,208,583
<b>Total</b>	<b>16,968,916</b>	<b>13,070,657</b>

a.4. Certain guarantee, provisional guarantees, suretyships and similar transactions:

	Current Period	Prior Period
Letters of Tentative Guarantees	1,002,210	746,541
Letters of Certain Guarantees	29,356,984	26,469,420
Letters of Advance Guarantees	8,772,471	5,925,994
Letters of Guarantee Given to Customs Offices	3,179,139	3,458,505
Other Letters of Guarantee	6,667,914	3,241,148
<b>Total</b>	<b>48,978,718</b>	<b>39,841,608</b>

a.5. Total Non-cash Loans:

	Current Period	Prior Period
Non-cash Loans against Cash Risks	7,683,932	4,249,448
With Original Maturity of 1 Year or Less	2,485,650	885,136
With Original Maturity More Than 1 Year	5,198,282	3,364,312
Other Non-cash Loans	58,263,702	48,662,817
<b>Total</b>	<b>65,947,634</b>	<b>52,912,265</b>

a.6. Sectoral Risk Concentration of Non-cash Loans:

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agriculture	94,526	0.42	27,667	0.06	126,846	0.61	13,730	0.04
Farming and Stockbreeding	77,348	0.34	23,801	0.05	93,718	0.45	13,730	0.04
Forestry	13,089	0.06			30,373	0.15		
Fishery	4,089	0.02	3,866	0.01	2,755	0.01		
Industry	6,313,385	27.97	20,965,957	48.34	6,092,427	29.22	16,955,569	52.88
Mining and Quarrying	180,739	0.80	284,201	0.66	144,773	0.69	178,385	0.56
Manufacturing	3,595,074	15.93	17,014,087	39.23	3,330,430	15.97	12,227,686	38.14
Electricity, Gas, Water	2,537,572	11.24	3,667,669	8.45	2,617,224	12.56	4,549,498	14.18
Construction	3,326,644	14.74	5,796,129	13.36	3,108,833	14.91	4,498,933	14.03
Services	12,648,653	56.04	16,194,536	37.34	11,203,664	53.74	8,145,630	25.41
Wholesale and Retail Trade	8,127,080	36.00	8,935,462	20.60	7,678,011	36.83	3,491,526	10.89
Hotel and Restaurant Services	215,216	0.95	147,433	0.34	188,077	0.90	65,082	0.20
Transportation and Communication	1,076,885	4.77	2,708,863	6.25	762,721	3.66	1,429,494	4.46
Financial Institutions	1,884,208	8.35	2,535,178	5.84	1,476,461	7.08	2,269,540	7.08
Real Estate and Rental Services	1,014,760	4.50	1,327,522	3.06	582,911	2.80	523,019	1.63
Self-Employed Services	216,675	0.96	221,767	0.51	401,663	1.93	212,580	0.66
Educational Services	32,835	0.15	3,551	0.01	28,711	0.14	5,584	0.02
Health and Social Services	80,994	0.36	314,760	0.73	85,109	0.40	148,805	0.47
Others	189,103	0.83	391,034	0.90	317,783	1.52	2,448,850	7.64
<b>Total</b>	<b>22,572,311</b>	<b>100.00</b>	<b>43,375,323</b>	<b>100.00</b>	<b>20,849,553</b>	<b>100.00</b>	<b>32,062,712</b>	<b>100.00</b>

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### a.7. Non-cash Loans classified under Group I and Group II:

	Group I		Group II	
	TL	FC	TL	FC
<b>Non-cash Loans</b>	<b>22,338,185</b>	<b>42,946,519</b>	<b>234,126</b>	<b>428,804</b>
Letters of Guarantee	22,003,510	26,323,612	234,126	417,470
Bank Acceptances		2,577,405		2,339
Letters of Credit	10,351	12,964,072		8,995
Endorsements				
Underwriting Commitments of the Securities Issued				
Factoring Related Guarantees	62,084	19,746		
Other Guaranties and Warranties	262,240	1,061,684		

#### b. Information on Derivative Financial Instruments:

Majority of the Group's derivative transactions comprise foreign currency and interest rate swaps, forward foreign exchange trading, currency and interest rate options. Even though some derivative transactions economically provide risk hedging, since all necessary conditions to be defined as items suitable for financial risk hedging accounting are not met, they are recognized as "held for trading purposes" within the framework of TAS 39 "Financial Instruments: Recognition and Measurement". Derivatives, which are designed to hedge changes in fair values of financial instruments and meet required criterion are classified as derivatives held for hedge accounting purposes.

#### c. Explanations Related to Contingencies and Commitments:

The balance of the "Other Irrevocable Commitments" account, which comprised the letters of guarantees, guarantees and commitments submitted by the Group pursuant to its own internal affairs, and guarantees given to third parties by other institutions in favor of the Parent Bank and the commitments due to housing loans extended within the scope of unfinished house projects followed, amounts to TL 8,647,320.

The cheques given to customers is presented under off balance sheet commitments, as per the related regulations is amounting to TL 5,776,407. In case the cheques presented for payment to beneficiaries are not covered, the Parent Bank will be obliged to pay the uncovered amount up to TL 815 (full amount expressed) for the cheques that are subject to the Law numbered 3167 on "the Regulation of Payments by Cheque and Protection of Cheque Holders", and up to TL 1,410 (full amount) for the cheques that are subject to the "Cheque Law" numbered 5941. The uncollected amount will be followed under "Indemnified Non-Cash Loans.

#### d. Explanations related to transactions made on behalf of or on the account of others:

It is explained in Note X under Section Four.

## IV. DISCLOSURES AND FOOTNOTES ON CONSOLIDATED INCOME STATEMENT

### a. Interest Income

#### a.1. Information on interest income on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest Income on Loans <sup>(1)</sup>				
Short-term Loans	4,785,404	319,163	3,939,904	311,042
Medium and Long-term Loans	9,709,508	4,098,272	8,632,534	3,430,888
Interest on Non-performing Loans	172,565	2,022	172,450	2,157
Premiums Received from State Resource Utilization Support Fund				
<b>Total</b>	<b>14,667,477</b>	<b>4,419,457</b>	<b>12,744,888</b>	<b>3,744,087</b>

<sup>(1)</sup> Includes fee and commission income on cash loans.

#### a.2. Information on interest income on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of the Republic of Turkey		4,022		
Domestic Banks	461,019	40,630	181,896	62,527
Foreign Banks	5,369	11,220	4,651	9,528
Foreign Head Offices and Branches				
<b>Total</b>	<b>466,388</b>	<b>55,872</b>	<b>186,547</b>	<b>72,055</b>

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## a.3. Information on interest income from securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest Income on Financial Assets Held for Trading	94,363	1,630	80,458	74
Interest Income on Financial Assets at Fair Value through Profit and Loss				
Interest Income on Financial Assets Available for Sale	3,514,650	524,906	3,346,972	533,498
Held to Maturity Investments	443,111	10,282	117,280	4,030
<b>Total</b>	<b>4,052,124</b>	<b>536,818</b>	<b>3,544,710</b>	<b>537,602</b>

## a.4. Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest Income from Associates and Subsidiaries	3,674	846

## b. Interest Expense

## b.1. Information on interest expense from funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	394,874	523,041	454,686	436,189
Central Bank of Turkey		157		156
Domestic Banks	109,572	38,315	151,475	25,028
Foreign Banks	285,302	484,569	303,211	411,005
Foreign Head Offices and Branches				
Other Institutions	2,487	329,788		260,794
<b>Total <sup>(1)</sup></b>	<b>397,361</b>	<b>852,829</b>	<b>454,686</b>	<b>696,983</b>

<sup>(1)</sup> Includes fee and commission expenses from cash loans.

## b.2. Information on interest paid to associates and subsidiaries:

	Current Period	Prior Period
Interest Paid to Associates and Subsidiaries	35,953	25,955

## b.3. Information on interest paid on marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Securities Issued	804,034	1,056,704	667,619	921,856

## b.4. Information on Interest Expense on Deposits According to Maturity Structure:

	Demand Deposits	Time Deposits					Over One Year	Accumulated Deposits	Total
		Up to One Month	Up to Three Months	Up to Six Months	Up to One Year				
<b>TL</b>									
Bank Deposits	7	56,335	26,478	234		186		83,240	
Savings Deposits		175,718	3,952,971	280,591	47,781	32,905	275	4,490,241	
Public Sector Deposits		1,249	10,524	224	6	1		12,004	
Commercial Deposits	5	350,476	692,235	147,112	25,516	3,626		1,218,970	
Other Institutions Deposits	6	11,702	243,576	222,152	54,688	264		532,388	
Deposits with 7 Days Notice									
<b>Total</b>	<b>18</b>	<b>595,480</b>	<b>4,925,784</b>	<b>650,313</b>	<b>127,991</b>	<b>36,982</b>	<b>275</b>	<b>6,336,843</b>	
<b>FC</b>									
Foreign Currency Deposits	590	110,107	532,624	75,588	56,707	207,386	11	983,013	
Bank Deposits	1,040	22,267	21,218	2,678	6,252	23,277		76,732	
Deposits with 7 Days Notice									
Precious Metals Deposits					2,161	133		2,294	
<b>Total</b>	<b>1,630</b>	<b>132,374</b>	<b>553,842</b>	<b>78,266</b>	<b>65,120</b>	<b>230,796</b>	<b>11</b>	<b>1,062,039</b>	
<b>Grand Total</b>	<b>1,648</b>	<b>727,854</b>	<b>5,479,626</b>	<b>728,579</b>	<b>193,111</b>	<b>267,778</b>	<b>286</b>	<b>7,398,882</b>	

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### c. Information on dividend income:

	Current Period	Prior Period
Financial Assets Held for Trading	2,243	1,455
Financial Assets at Fair Value Through Profit and Loss		
Financial Assets Available for Sale	6,302	5,685
Other	309,678	249,556
<b>Total</b>	<b>318,223</b>	<b>256,696</b>

#### d. Information on trading income/losses (Net):

	Current Period	Prior Period
<b>Income</b>	<b>158,569,552</b>	<b>161,860,645</b>
Securities Trading Gains	4,002,296	3,346,423
Gains on Derivative Financial Instruments	11,331,714	5,664,626
Foreign Exchange Gains	143,235,542	152,849,596
<b>Losses (-)</b>	<b>158,986,554</b>	<b>162,185,805</b>
Securities Trading Losses	3,735,581	2,933,959
Losses on Derivative Financial Instruments	11,518,920	6,562,571
Foreign Exchange Losses	143,732,053	152,689,275
<b>Trading Income/Losses (Net)<sup>(a)</sup></b>	<b>(417,002)</b>	<b>(325,160)</b>

<sup>(a)</sup> Income arising from foreign currency changes related to derivative transactions amounting TL 8,718,206, and the losses amounting TL 5,832,237 and the amount of net loss is TL 2,885,969 (31 December 2015 profit: TL 3,090,812; loss: TL 3,659,609).

#### e. Information on other operating income:

As at reporting period, TL 4,812,751 of other operating income sources from inclusion and classification of operations of insurance and reinsurance companies; 93% of which is from insurance premiums (31 December 2015: TL 4,098,783, 92%).

TL 300,277 of other operating income results from the transfer of Visa Europe Ltd, which is the payment systems company that the Parent Bank has a share in capital, to Visa Inc. that operates in the same area. The remaining part consists of cancellations or collections from other provisions set aside due to miscellaneous reasons, mainly for non-performing loans; fee income received from customers in return for various banking services; leasing revenues and income from fixed asset sale.

#### f. Information on provision for impairment on loans and other receivables:

	Current Period	Prior Period
Specific Provisions for Loans and Other Receivables	2,056,969	1,541,833
Group III Loans and Receivables	187,372	176,742
Group IV Loans and Receivables	590,181	458,765
Group V Loans and Receivables	1,279,416	906,326
General Loan Provision Expenses	302,173	569,074
Provision Expenses for Potential Risks		
Impairment Losses on Marketable Securities	19,245	16,911
Financial Assets at Fair Value through Profit and Loss	8,581	9,313
Financial Assets Available for Sale	10,664	7,598
Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Investments Held to Maturity	155,346	
Associates		
Subsidiaries	155,346	
Jointly Controlled Entities		
Investments Held to Maturity		
Other	301,762	161,904
<b>Total</b>	<b>2,835,495</b>	<b>2,289,722</b>

<sup>(a)</sup> In the current period, the portion of TL 137,727 is additional provisions related to SDIF payment detailed in section five footnote numbered II-g.5.5

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## g. Other operating expenses:

	Current Period	Prior Period
Personnel Expenses <sup>(1)</sup>	3,595,133	3,139,025
Reserve for Employee Termination Benefits	79,356	55,629
Bank Pension Fund Deficit Provisions	214,437	277,523
Impairment Losses on Tangible Assets		7,085
Depreciation Expenses of Tangible Assets	254,598	242,247
Impairment Losses on Intangible Assets		
Impairment Losses on Goodwill		
Amortization Expenses of Intangible Assets	276,658	211,757
Impairment Losses on Investments Accounted Under Equity Method		
Impairment Losses on Assets to be Disposed	2,791	3,275
Depreciation Expenses of Assets to be Disposed	7,500	5,682
Impairment Losses on Assets Held for Sale and Subject to Discontinued Operations		
Other Operating Expenses	2,328,570	2,142,616
Operational Lease Related Expenses	339,926	328,125
Repair and Maintenance Expenses	135,401	109,096
Advertisement Expenses <sup>(2)</sup>	218,057	239,268
Other Expenses <sup>(2)</sup>	1,635,186	1,466,127
Loss on Sale of Assets	4,775	160,899
Other	4,566,473	4,694,555
<b>Total</b>	<b>11,330,291</b>	<b>10,940,293</b>

<sup>(1)</sup> Includes provision for the payments that will be made to employees such as dividend distribution in accordance with "TAS 19-Employee Benefits".

<sup>(2)</sup> Expense amount of the Bank's donation, aid and social responsibility projects is TL 49,197 in the current period. (31 December 2015: TL 32,815)

On the table above TL 4,117,676 of operating expenses results from the expenses regarding assurance and reinsurance companies' operations being classified in Other items. Huge portion of the aforementioned amount is caused by compensation payments both in the current and prior periods.(31.12.2015: TL 3,611,428). Expense amount of TL 86,539 which originated from the return of loan commissions -which were included in Parent Bank's prior year income- and TL 272,658 of tax, fee and fund expenses are the other items included in "Others".

## h. Information on profit/loss before taxes including profit/loss from continuing and discontinued operations

The Group's profit before tax is generated from its continuing operations. The profit before tax consists of net interest income of TL 12,421,765, net fee and commission income of TL 2,148,533 and the other operation expenses amount to TL 11,330,291.

## i. Information on Provision for taxes including taxes from continuing and discontinued operations

As of 31 December 2016 the amount of the Group's tax provision is TL 1,349,454 and the amount consists of current tax expense that is amounting to TL 1,119,041 and consists of deferred tax income amounting TL 230,413.

## j. Information on net operating profit/loss after taxes including net profit/loss from continuing and discontinued operations:

The Group's net profit generated from its continuing operations amounts to TL 5,682,858.

## k. Information on net period profit/loss:

**k.1.** Income and expense resulting from ordinary banking activities: There is no specific issue required to be disclosed for the Group's performance for the period between 1 January 2016 - 31 December 2016.

**k.2.** Effects of changes in accounting estimates on the current and future periods' profit/loss: There is no issue to be disclosed

**k.3.** "The Other" item which is located at the bottom "Fees and Commissions Received" in the income statement consist of various fees and commissions received from transactions such as credit card transactions, capital market transactions and insurance-reinsurance transactions.

**k.4.** Other items do not exceed 10% of the total amount of the income statement.

## l. Net profit/loss of non-controlling interest:

	Current Period	Prior Period
Net Profit/Loss of Non-controlling Interest	683,902	408,931

## V. DISCLOSURES AND FOOTNOTES ON CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

The paid-in capital is TL 4,500,000 in legal records. As of balance sheet date, the balance of legal reserves is TL 3,043,282 and the balance of extraordinary reserves is TL 17,965,162.

In the current period, changes in other reserves item is a result of the conversion that arise from foreign branches and financial organizations regarding with the actuarial loss of compensation payment's liability.

Change in retained earnings amounting to TL 43,442 is comprised of reclassification of revaluation surplus of sold real estates to retained earnings in accordance with the TAS 16 "Property, Plant and Equipment" amounting to TL 46,060, and the remaining amount is due to the change in group's shares.

The details of revaluation surplus account of securities are shared in the Note Section V-II-I-9. TL 439,245 of this amount is the deferred tax effect on available for sale securities (31 December 2015: TL 235,468).

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

The change in the tangible and intangible revaluation account is the result of the revaluation increases related to the properties sold in the current period within the scope of IAS 16 "Property, Plant and Equipment".

#### VI. DISCLOSURES AND FOOTNOTES ON THE CONSOLIDATED STATEMENTS OF CASH-FLOWS

The operating profit of TL 14,468,280 before the changes in operating assets and liabilities mostly comprised of TL 24,196,904 of interest received from loans and securities, and TL 12,441,604 of interest paid on deposits, money market transactions and funds borrowed by the Bank. An important part of other revenues, TL 5,861,916, consists of premium collections of insurance companies. The account "Other" classified under operating profit other than fees and commissions paid, cash payments to personnel and service suppliers and taxes paid consists of other operating expenses and foreign exchange gains/losses accounts is TL 34,709 (31 December 2015: TL 1,152,851).

Net Increase (Decrease) in Other Liabilities account classified in changes of assets and liabilities resulting from the changes in Funds Provided Under Repurchase Agreements, miscellaneous payables, other liabilities and taxes, duties, charges, and premiums is increased by TL 4,347,005 (31 December 2015: TL 4,719,629 increase).

The Net Cash Provided from Other Investing Activities account includes net cash flows from the sale of intangible assets and declined by TL 340,216 (31 December 2015: TL 339,573 decrease).

The effect of changes in foreign exchange rates on cash and cash equivalents is TL 145,364 as of 31 December 2016. Due to the high rate of turnover of related foreign currency assets, the difference between the last 30 days' arithmetic average of currency exchange rates and the year-end currency exchange rate is used to calculate the effect of change in foreign exchange rate. Under the same assumption, the effect of change in foreign exchange rate on cash and cash equivalents as of 31 December 2015 was TL 57,933 decrease.

Cash, cash in foreign currency, unrestricted deposits in Central Bank of Turkey, money in transit, cheques purchased, money market operations as well as demand deposits and time deposits up to 3 months are defined as cash and cash equivalents.

#### Cash and cash equivalents at beginning of period:

	31 December 2015	31 December 2014
Cash	7,837,113	8,351,714
Cash in TL and Foreign Currency	2,668,168	2,530,767
Central Bank of Turkey and Other	5,168,945	5,820,947
Cash Equivalents	6,081,306	5,210,602
Receivables from Money Market Operations	1,302,303	262,983
Banks' Demand Deposits and Time Deposits Up to 3 Months	4,779,003	4,947,619
<b>Total Cash and Cash Equivalents</b>	<b>13,918,419</b>	<b>13,562,316</b>

The total amount resulting from the transactions made in the previous period shows the total cash and cash equivalents as of the beginning of the current period.

#### Cash and Cash equivalents as of end of the period:

	31 December 2016	31 December 2015
Cash	12,281,594	7,837,113
Cash in TL and Foreign Currency	3,410,427	2,668,168
Central Bank of Turkey and Other	8,871,167	5,168,945
Cash Equivalents	7,687,535	6,081,306
Receivables from Money Market Operations	466,805	1,302,303
Banks' Demand Deposits and Time Deposits Up to 3 Months	7,220,730	4,779,003
<b>Total Cash and Cash Equivalents</b>	<b>19,969,129</b>	<b>13,918,419</b>

#### VII. DISCLOSURES AND FOOTNOTES ON THE GROUP'S RISK GROUP

##### a. Information on the volume of transactions relating to the Group's risk group, incomplete loan and deposit transactions and period's profit and loss:

##### a.1. Information on loans held by the Group's risk group:

Current Period:

Group's Risk Group	Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		Direct and Indirect Shareholders of the Bank		Other Real Persons and Corporate Bodies that have been Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	24,367	1,824,468			301,844	285,220
Balance at the end of the period	25,018	2,479,336			196,213	569,518
Interest and commission income received	3,674	390			26,609	2,601

Prior Period:

Group's Risk Group	Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		Direct and Indirect Shareholders of the Bank		Other Real Persons and Corporate Bodies that have been Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	1,228	1,490,797			443,998	237,884
Balance at the end of the period	24,367	1,824,468			301,844	285,220
Interest and commission income received	846	153			37,736	2,959

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## a.2. Information on deposits held by the Group's risk group:

Group's Risk Group	Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		Direct and Indirect Shareholders of the Bank		Other Real Persons and Corporate Bodies that have been Included in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Deposits						
Balance at the beginning of the period	675,930	523,900	166,618	206,316	2,653,835	2,469,021
Balance at the end of the period	536,894	675,930	242,924	166,618	3,101,929	2,653,835
Interest expense on deposits	33,412	25,004	34,238	30,689	99,501	77,383

## a.3. Information on forward and option and other similar agreements made with the Group's risk group:

Group's Risk Group	Investments in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)		Direct and Indirect Shareholders of the Bank		Other Real Persons and Corporate Bodies that have been Included in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Transactions at Fair Value Through Profit and Loss						
Beginning of the period					29,860	
End of the period					26,465	29,860
Total Profit/Loss	1,165	(1,241)			(1,186)	1,505
Transactions for hedging purposes						
Beginning of the period						
End of the period						
Total Profit/Loss						

## b. Disclosures for the Group's risk group:

## b.1. The relations of the Group with corporations in its risk group and under its control regardless of any transactions between the parties:

All types of corporate and retail banking services are provided to these corporations in line with the articles of Banking Law.

## b.2. The type and amount of transaction carried out, and its ratio to the overall transaction volume, values of principal items and their ratios to overall items, pricing policy and other items in addition to the structure of the relationship:

The transactions carried out are mainly loan and deposit transactions. The ratio of loans extended to the risk group to the overall loans is 0.10%, while the ratio to the overall assets is 0.06% the ratio of deposits of the risk group corporations to the overall deposits is 2.17%, while the ratio to overall liabilities is 1.04%. The same pricing policy with third parties is used for the financial services provided to companies in the Parent Bank's risk group.

## b.3. Purchase and sale of real estates, other assets and services, agency agreements, finance lease contracts, transfer of information obtained through research and development, license agreements, funding (including loans and provision of support as cash capital or capital-in-kind), guarantees and collaterals, and management agreements:

The Bank's branches act as agents for Anadolu Anonim Türk Sigorta Şirketi and Anadolu Hayat Emeklilik A.Ş. Furthermore, through its branches the Bank also acts as agent for İş Yatırım Menkul Değerler A.Ş. and İş Portföy Yönetimi A.Ş. 22 mutual funds which are founded by the Anadolu Hayat Emeklilik A.Ş. are managed by İş Portföy Yönetimi A.Ş. Securities purchases are made through Bank's subsidiary İş Finansal Kiralama A.Ş. by way of leasing.

If requested, cash and non-cash loan requirements of corporations within the risk group are met in accordance with the limits imposed by the Banking Law and the prevailing market conditions.

## c. Total salaries and similar benefits paid to the key management personnel

In the current period, the net payment provided to the key management of Group amounts TL 80,232 (31 December 2015: TL 65,176).

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### VIII. DISCLOSURES ON THE GROUP'S DOMESTIC, FOREIGN, OFF-SHORE BRANCHES OR PARTICIPATIONS AND REPRESENTATIVE OFFICES

##### The Parent Bank - Türkiye İş Bankası A.Ş.

	Number	Employees				
Domestic Branches <sup>(1)</sup>	1,351	24,464				
			<b>Country of Incorporation</b>			
Foreign Representative Offices	1	1		China		
	1	2		Egypt		
					<b>Total Assets</b>	<b>Legal Capital</b>
Foreign Branches	2	40		England	13,600,245	429
	16	185		TRNC	2,306,031	80,000
	2	34		Iraq	607,648	48,646
	2	23		Kosovo	278,405	36,820
Off-Shore Branches	1	7		Bahrain	7,187,923	

<sup>(1)</sup> The Branches located in Free Trade Zones in Turkey are included among domestic branches.

##### İşbank AG

	Number	Employees				
Domestic Branches <sup>(1)</sup>	13	242				
			<b>Country of Incorporation</b>			
Foreign Representative Offices						
					<b>Total Assets</b>	<b>Legal Capital</b>
Foreign Branches	1	9		Netherlands	4,688,159	
	1	9		France	325,768	
	1	7		Switzerland	71,176	
	1	7		Bulgaria	8,933	
Off-Shore Branches						

<sup>(1)</sup> The branches of the company, which is headquartered in Germany, in Germany are shown as domestic branches

##### Milli Reasürans T.A.Ş.

	Number	Employees				
Domestic Branches	1	199				
			<b>Country of Incorporation</b>			
Foreign Representative Offices						
					<b>Total Assets</b>	<b>Legal Capital</b>
Foreign Branches						
Off-Shore Branches	1	11		Singapore	166,444	105,576

##### JSC İşbank

	Number	Employees				
Domestic Branches <sup>(1)</sup>	5	159				
			<b>Country of Incorporation</b>			
Foreign Representative Offices						
					<b>Total Assets</b>	<b>Legal Capital</b>
Foreign Branches						
Off-Shore Branches						

<sup>(1)</sup> The branches of the company, which is headquartered in Moscow, in Russia are shown as domestic branches.

##### JSC İşbank Georgia

	Number	Employees				
Domestic Branches <sup>(1)</sup>	2	52				
			<b>Country of Incorporation</b>			
Foreign Representative Offices						
					<b>Total Assets</b>	<b>Legal Capital</b>
Foreign Branches						
Off-Shore Branches						

<sup>(1)</sup> The branches of the company, which is headquartered in Tiflis, in Georgia are shown as domestic branches.

## Financial Information and Risk Management

Türkiye İş Bankası A.Ş.  
Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2016

## Number of employees of consolidated companies that does not have agencies and branches abroad:

	Employees
Anadolu Anonim Türk Sigorta Şirketi	1,185
Anadolu Hayat Emeklilik A.Ş.	1,048
Efes Varlık Yönetimi A.Ş.	77
İş Faktoring A.Ş.	96
İş Finansal Kiralama A.Ş.	150
İş Gayrimenkul Yatırım Ortaklığı A.Ş.	80
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	18
İş Portföy Yönetimi A.Ş.	64
İş Yatırım Menkul Değerler A.Ş.	358
İş Yatırım Ortaklığı A.Ş.	6
Maxis Investments Ltd. <sup>(4)</sup>	23
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	12
Türkiye Sınai Kalkınma Bankası A.Ş.	357
Yatırım Finansman Menkul Değerler A.Ş.	115

<sup>(4)</sup> The Company, which is headquartered in London, does not have any branch or representative office beside its head office.

## IX. SUBSEQUENT EVENTS

Within the framework of the resolution of the Bank's Board of Directors dated 22 August 2016 regarding issuance of securities, after 31 December 2016, the Bank has issued Bank bills with a TL 400,046 nominal value of TL 123 days maturity, 456,835 nominal value of TL 221 days maturity and 162,000 nominal value of TL 116 day term bonds were issued.

İş Finansal Kiralama A.Ş. Bonds with nominal value of TL 330,000 and with a term of 178 days and maturity dates of 3 July 2017 which are sold to qualified investors on 6 January 2017 have started to be traded in the Exchanges Market of Stock Market Borrowing Instruments Market within the framework of decision of Stock Exchange Istanbul Board of Directors dated 15 April 2016.

## SECTION SIX: OTHER EXPLANATIONS

## I. Explanation on the Group's Credit Ratings:

## Türkiye İş Bankası A.Ş.

	Rating	Outlook <sup>(4)</sup>	Explanation
<b>MOODY'S</b>			
Long-term Foreign Currency Deposit	Ba2	Stable	It is the highest rating in this category determined ceiling of Turkey.
Long-term Local Currency Deposit	Ba1	Stable	Same as the country rating given for Turkey.
Long-term Foreign Currency Senior Debt	Ba1	Stable	Same as the country rating given for Turkey.
Short-term Foreign Currency Deposit	Not-Prime	-	Indicates that the Bank's level is not investible.
Short-term Local Currency Deposit	Not-Prime	-	Indicates that the Bank's level is not investible.
<b>FITCH RATINGS</b>			
Long-term Foreign Currency Issuer Default Rating	BBB-	Negative	At investment level. Shows that the Bank's credibility is good.
Long-term Local Currency Issuer Default Rating	BBB-	Negative	At investment level. Shows that the Bank's credibility is good.
Short-term Foreign Currency Issuer Default Rating	F3	-	At investment level. Shows that the capacity for timely payment of financial commitments is adequate.
Short-term Local Currency Issuer Default Rating	F3	-	At investment level. Shows that the capacity for timely payment of financial commitments is adequate.
National Long-term Rating	AA+ (tur)	Stable	Shows high credit quality (national).
Viability Rating	bbb-	-	Shows that the Bank's credibility is "good". Basic financial indicators are adequate.
Support Rating	3	-	There is a moderate probability of support.
<b>STANDARD &amp; POOR'S</b>			
Long-term Counterparty Credit Rating	BB	Negative	Same as the FC country rating given for Turkey.
Short-term Counterparty Credit Rating	B	-	Indicates that it has the capacity to meet its financial commitment on the obligation.
Long-term National Scale Rating	trAA-	-	Indicates that its capacity to meet its financial commitments on the obligation is strong.
Short-term National Scale Rating	trA-1	-	It is the highest rating in this category and indicates that the Bank's capacity to pay its short-term debt is higher than the other institutions in the country.

## The dates below given are on which the Parent Bank's credit ratings/outlook was last updated:

Moody's: 26 September 2016, Fitch Ratings: 25 August 2016, Standard & Poor's: 31 January 2017.

<sup>(4)</sup> Outlook:

"Stable" indicates that the current rating will not be changed in the short term; "positive" indicates that the current rating is very likely to be upgraded and "negative" indicates that the current rating is very likely to be downgraded.

# Türkiye İş Bankası A.Ş.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2016

#### Türkiye Sınai Kalkınma Bankası A.Ş.

	Rating	Outlook
<b>MOODY'S</b>		
Baseline Credit Assessment	Ba2	-
Long-term Foreign Currency Issuer Rating	Ba1	Stable
Short-term Foreign Currency Issuer Rating	Not-Prime	-
Long-term Local Currency Issuer Rating	Ba1	Stable
Short-term Local Currency Issuer Rating	Not-Prime	-
Senior Unsecured Debt Foreign Currency Issuer Rating	Ba1	Stable
<b>FITCH RATINGS</b>		
Long-term Foreign Currency Issuer Default Rating	BBB-	Negative
Long-term Local Currency Issuer Default Rating	BBB-	Negative
Short-term Foreign Currency Issuer Default Rating	F3	-
Short-term Local Currency Issuer Default Rating	F3	-
National Rating	AAA(tur)	Stable
Support Rating	2	-
Support Rating	BBB-	-
Short Term Senior Unsecured Loan Rating	F3	-
Long Term Senior Unsecured Loan Rating	BBB-	-

#### The dates below given are on which the TSKB's credit ratings were last updated:

Moody's: 26 September 2016, Fitch Ratings: 18 October 2016.

#### İş Finansal Kiralama A.Ş.

	Rating	Outlook
<b>FITCH RATINGS</b>		
Long-term Foreign Currency Issuer Default Rating	BBB-	Negative
Long-term Local Currency Issuer Default Rating	BBB-	Negative
Short-term Foreign Currency Issuer Default Rating	F3	Negative
Short-term Local Currency Issuer Default Rating	F3	Negative
National Long-term Rating	AA+ (tur)	Negative
Support Rating	2	-

#### The date below given is on which the credit ratings of İş Finansal Kiralama A.Ş. were last updated:

Fitch Ratings: 17 January 2017

#### II. Explanations on Special Purpose Audit and Public Audit

According to the Turkish Commercial Code 207, 438 and 439, the Bank has not been done special audit in the current period. The Bank is subject to public scrutiny, including public institutions such as; BRSA, CBRT, the Capital Markets Board, the Competition Authority. In relation to these inspections of public institutions, if there is a point where disclosure to be necessary, the Bank shares the issues with the public through disclosures.

#### SECTION SEVEN: EXPLANATIONS ON THE INDEPENDENT AUDITORS' REPORT

##### I. Explanations on the Independent Auditors' Report:

The consolidated financial statements of the Bank and its consolidated financial subsidiaries as of 31 December 2016, have been audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (A member firm of KPMG International Cooperative) and the independent audit report dated 2 February 2017, is presented before the accompanying consolidated financial statements.

##### II. Explanations and Footnotes of the Independent Auditors

There are no significant issues or necessary disclosures or notes in relation to the Group's operations other than those mentioned above.

## Financial Highlights and Key Ratios for the Five-Year Period

<b>UNCONSOLIDATED</b>					
<b>ASSETS (TL thousand)</b>					
	2012/12	2013/12	2014/12	2015/12	2016/12
Cash and Equivalents	1,756,595	2,219,817	2,557,158	2,844,408	3,742,497
Banks and Receivables from Interbank Money Markets <sup>(1)</sup>	15,634,097	22,335,328	23,442,769	30,325,618	30,913,211
Securities (Net)	38,054,734	36,866,263	40,856,011	44,780,864	51,309,768
Loans <sup>(2)</sup>	106,715,770	134,843,374	155,315,498	177,036,620	203,143,845
Associates and Subsidiaries (Net)	7,699,954	7,760,771	9,624,972	9,393,597	10,442,397
Fixed Assets (Net)	1,998,785	2,090,204	2,236,258	4,747,116	4,838,475
Other Assets	3,584,515	4,384,280	3,739,309	6,589,361	7,235,720
<b>Total Assets</b>	<b>175,444,450</b>	<b>210,500,037</b>	<b>237,771,975</b>	<b>275,717,584</b>	<b>311,625,913</b>
<b>LIABILITIES (TL thousand)</b>					
	2012/12	2013/12	2014/12	2015/12	2016/12
Deposits	105,383,434	120,974,765	133,551,191	153,802,426	177,359,976
Funds Borrowed and Interbank Money Market Placements <sup>(3)</sup>	32,435,220	49,917,741	58,787,820	72,305,908	78,872,749
Provisions	5,380,105	5,842,456	6,450,399	7,093,746	7,544,609
Other Liabilities	9,526,646	10,185,958	9,671,498	10,480,514	11,887,598
Shareholders' Equity	22,719,045	23,579,117	29,311,067	32,034,990	35,960,981
<b>Total Liabilities</b>	<b>175,444,450</b>	<b>210,500,037</b>	<b>237,771,975</b>	<b>275,717,584</b>	<b>311,625,913</b>
<b>INCOME STATEMENT<sup>(4)</sup> (TL thousand)</b>					
	2012/12	2013/12	2014/12	2015/12	2016/12
Interest Income	13,390,415	13,460,682	16,085,908	19,200,361	22,327,585
Interest Expenses	7,462,498	6,805,252	8,631,691	10,214,805	11,490,304
Net Interest Income	5,927,917	6,655,430	7,454,217	8,985,556	10,837,281
Net Trading Income	590,390	223,266	184,866	-868,620	-816,736
Net Fees and Commissions Income	1,706,227	1,919,086	2,003,778	2,388,802	2,840,357
Dividend Income	417,703	450,312	594,982	554,940	682,673
Other Operating Income	1,172,144	1,038,142	1,011,812	1,108,588	1,313,972
<b>Total Operating Income</b>	<b>9,814,381</b>	<b>10,286,236</b>	<b>11,249,655</b>	<b>12,169,266</b>	<b>14,857,547</b>
Operating Expenses	4,484,306	4,962,519	5,695,413	6,327,389	6,506,124
<b>NET OPERATING PROFIT/LOSS</b>	<b>5,330,075</b>	<b>5,323,717</b>	<b>5,554,242</b>	<b>5,841,877</b>	<b>8,351,423</b>
Provision for Losses on Loans and Other Receivables	1,209,122	1,467,018	1,323,174	2,058,180	2,597,641
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>4,120,953</b>	<b>3,856,699</b>	<b>4,231,068</b>	<b>3,783,697</b>	<b>5,753,782</b>
Provision for Taxes	810,646	693,334	848,626	701,006	1,052,576
<b>NET PERIOD PROFIT/(LOSS)</b>	<b>3,310,307</b>	<b>3,163,365</b>	<b>3,382,442</b>	<b>3,082,691</b>	<b>4,701,206</b>
<b>KEY RATIOS</b>					
	2012/12	2013/12	2014/12	2015/12	2016/12
Interest Earning Assets <sup>(5)</sup> / Total Assets	91.4%	92.2%	92.3%	91.3%	91.5%
Interest Earning Assets <sup>(5)</sup> / Interest Bearing Liabilities	116.4%	113.5%	114.2%	111.4%	111.3%
Securities / Total Assets	21.7%	17.5%	17.2%	16.2%	16.5%
Loans / Total Assets	60.8%	64.1%	65.3%	64.2%	65.2%
Loans / Deposits	101.3%	111.5%	116.3%	115.1%	114.5%
Retail Loans / Total Loans	28.6%	28.5%	27.3%	26.4%	24.9%
NPL Ratio	1.9%	1.6%	1.5%	2.0%	2.4%
Coverage Ratio	78.9%	80.4%	76.9%	75.1%	77.5%
Demand Deposits / Total Deposits	19.9%	21.2%	22.0%	22.6%	24.6%
Shareholders' Equity / Total Liabilities	12.9%	11.2%	12.3%	11.6%	11.5%
Capital Adequacy Standard Ratio	16.3%	14.4%	16.0%	15.6%	15.2%
Return on Average Assets <sup>(6)</sup>	2.0%	1.6%	1.5%	1.2%	1.6%
Return on Average Equity <sup>(6)</sup>	16.5%	13.7%	13.1%	10.4%	13.7%
Cost / Income	45.7%	48.2%	50.6%	52.0%	43.8%
<b>OTHER INFORMATION (TL thousand)</b>					
	2012/12	2013/12	2014/12	2015/12	2016/12
Regulatory Capital	24,739,690	27,689,806	35,255,300	37,766,807	40,996,321
Core Capital	19,765,885	22,264,891	29,929,906	32,380,827	35,505,450
Free Capital <sup>(7)</sup>	16,099,351	17,070,498	21,137,787	21,723,275	24,295,964
Demand Deposits	20,946,735	25,623,095	29,431,107	34,683,265	43,598,933

<sup>(1)</sup> Includes Deposits at the Central Bank and Reserve Requirements

<sup>(2)</sup> Excludes Receivables under Follow-up

<sup>(3)</sup> Includes TL, FC bond issuances and subordinated debts

<sup>(4)</sup> Fees and Commissions Received from Cash Loans are shown under Interest Income; Fees and Commissions Paid to Cash Loans are shown under Interest Expense.

<sup>(5)</sup> Interest Earning Assets include TL and FC reserves at Central Bank, which are currently paid 0% interest.

<sup>(6)</sup> Averages are calculated over quarter figures.

<sup>(7)</sup> Free Equity = Shareholders' Equity - (Fixed Assets+Non-Financial Associates and Subsidiaries+Receivables Under Follow-Up-Specific Provisions)

<b>CONSOLIDATED</b>					
<b>ASSETS (TL thousand)</b>	<b>2012/12</b>	<b>2013/12</b>	<b>2014/12 *</b>	<b>2015/12</b>	<b>2016/12</b>
Cash and Equivalents	1,779,460	2,257,090	2,586,183	2,870,757	3,770,953
Banks and Receivables from Interbank Money Markets <sup>(1)</sup>	18,965,235	26,479,037	28,827,380	37,303,516	39,186,809
Securities (Net)	44,782,722	43,651,041	48,248,088	52,558,209	59,622,108
Loans <sup>(2)</sup>	115,733,719	146,136,030	169,066,501	194,860,737	227,021,840
Associates and Subsidiaries (Net)	4,398,434	4,174,551	5,611,155	4,948,894	6,010,149
Receivables from Finance Lease (Net)	1,384,455	2,034,122	2,746,199	3,199,311	3,802,242
Fixed Assets (Net)	3,511,410	3,938,176	5,529,490	9,405,417	9,921,047
Other Assets	10,519,304	12,949,093	14,458,236	20,352,131	24,485,116
<b>Total Assets</b>	<b>201,074,739</b>	<b>241,619,140</b>	<b>277,073,232</b>	<b>325,498,972</b>	<b>373,820,264</b>
<b>LIABILITIES (TL thousand)</b>	<b>2012/12</b>	<b>2013/12</b>	<b>2014/12 *</b>	<b>2015/12</b>	<b>2016/12</b>
Deposits	106,010,860	121,837,798	134,501,226	154,201,290	179,159,438
Funds Borrowed and Interbank Money Market Placements <sup>(3)</sup>	44,483,302	65,397,271	78,385,798	98,396,171	110,736,096
Provisions	10,260,057	10,918,968	12,083,515	13,562,294	14,918,935
Other Liabilities	15,461,765	17,570,477	19,098,127	22,655,691	27,278,933
Shareholders' Equity	24,858,755	25,894,626	33,004,566	36,683,526	41,726,862
<b>Total Liabilities</b>	<b>201,074,739</b>	<b>241,619,140</b>	<b>277,073,232</b>	<b>325,498,972</b>	<b>373,820,264</b>
<b>INCOME STATEMENT <sup>(4)</sup> (TL thousand)</b>	<b>2012/12</b>	<b>2013/12</b>	<b>2014/12 *</b>	<b>2015/12</b>	<b>2016/12</b>
Interest Income	14,676,856	14,853,908	17,752,690	21,406,966	25,061,299
Interest Expenses	7,834,591	7,172,014	9,282,281	11,211,101	12,639,534
Net Interest Income	6,842,265	7,681,894	8,470,409	10,195,865	12,421,765
Net Trading Income	871,070	378,591	664,128	-325,160	-417,002
Net Fees and Commissions Income	1,258,319	1,468,946	1,505,183	1,807,881	2,148,533
Dividend Income	205,032	238,057	292,047	256,696	318,223
Other Operating Income	4,571,878	4,625,333	5,124,758	5,884,632	6,726,579
<b>Total Operating Income</b>	<b>13,748,564</b>	<b>14,392,821</b>	<b>16,056,525</b>	<b>17,819,914</b>	<b>21,198,098</b>
Operating Expenses	7,783,373	8,308,239	9,499,378	10,940,293	11,330,291
<b>NET OPERATING PROFIT/LOSS</b>	<b>5,965,191</b>	<b>6,084,582</b>	<b>6,557,147</b>	<b>6,879,621</b>	<b>9,867,807</b>
Provision for Losses on Loans and Other Receivables	1,291,545	1,654,701	1,530,113	2,289,722	2,835,495
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>4,673,646</b>	<b>4,429,881</b>	<b>5,027,034</b>	<b>4,589,899</b>	<b>7,032,312</b>
Provision for Taxes	958,912	823,022	1,006,617	850,228	1,349,454
<b>NET PERIOD PROFIT/(LOSS)</b>	<b>3,714,734</b>	<b>3,606,859</b>	<b>4,020,417</b>	<b>3,739,671</b>	<b>5,682,858</b>
<b>KEY RATIOS</b>	<b>2012/12</b>	<b>2013/12</b>	<b>2014/12 *</b>	<b>2015/12</b>	<b>2016/12</b>
Interest Earning Assets <sup>(5)</sup> / Total Assets	89.8%	90.3%	89.8%	88.3%	88.1%
Interest Earning Assets <sup>(5)</sup> / Interest Bearing Liabilities	120.0%	116.5%	116.9%	113.8%	113.6%
Securities / Total Assets	22.3%	18.1%	17.4%	16.1%	15.9%
Loans / Total Assets	57.1%	60.1%	60.5%	59.3%	59.9%
Loans / Deposits	108.2%	119.2%	124.6%	125.1%	125.0%
Retail Loans / Total Loans	26.8%	26.7%	25.5%	24.4%	22.7%
NPL Ratio	1.8%	1.7%	1.6%	2.0%	2.3%
Coverage Ratio	76.8%	77.9%	74.3%	73.8%	76.1%
Demand Deposits / Total Deposits	20.1%	21.5%	22.4%	22.9%	24.9%
Shareholders' Equity / Total Liabilities	12.4%	10.7%	11.9%	11.3%	11.2%
Capital Adequacy Standard Ratio	16.3%	14.3%	15.7%	15.1%	14.3%
Return on Average Assets <sup>(6)</sup>	1.9%	1.6%	1.5%	1.2%	1.7%
Return on Average Equity <sup>(6)</sup>	16.7%	14.3%	13.4%	10.7%	14.5%
Cost / Income <sup>(7)</sup>	47.1%	49.1%	50.1%	51.6%	42.2%
<b>OTHER INFORMATION (TL thousand)</b>	<b>2012/12</b>	<b>2013/12</b>	<b>2014/12 *</b>	<b>2015/12</b>	<b>2016/12</b>
Regulatory Capital	27,325,571	30,567,360	38,653,387	41,654,637	45,092,524
Core Capital	22,715,413	25,607,957	32,704,560	35,428,502	38,967,938
Free Capital <sup>(8)</sup>	16,535,929	17,332,191	21,280,547	21,427,087	24,670,871
Demand Deposits	21,346,638	26,161,926	30,101,859	35,239,348	44,601,611

<sup>(1)</sup> Accounting policy change which was made in 2015 was applied retrospectively, and 2014 financial tables are corrected in accordance with the restatement.

<sup>(2)</sup> Includes Deposits at the Central Bank and Reserve Requirements

<sup>(3)</sup> Excludes Receivables under Follow-up

<sup>(4)</sup> Includes TL, FC bond issuances and subordinated debts

<sup>(5)</sup> Fees and Commissions Received from Cash Loans are shown under Interest Income; Fees and Commissions Paid to Cash Loans are shown under Interest Expense.

<sup>(6)</sup> Interest Earning Assets include TL and FC reserves at Central Bank, which are currently paid 0% interest.

<sup>(7)</sup> Averages are calculated over quarter figures. For 2015/12 and 2014/12 periods, average figures were calculated corrected over the year-end balances.

<sup>(8)</sup> Insurance Technical Income and Expense remainders were clarified.

<sup>(9)</sup> Free Equity = Shareholders' Equity - (Fixed Assets+Non-Financial Associates and Subsidiaries+Receivables Under Follow-Up-Specific Provisions)

## Direct and Indirect Subsidiaries (\*)

DIRECT SUBSIDIARIES	December 2016	
	Direct Share	Bank's Risk Group Share Percentage
Anadolu Hayat Emeklilik A.Ş.	62.00%	83.00%
Arap Türk Bankası A.Ş.	20.58%	20.58%
Bankalararası Kart Merkezi A.Ş.	9.98%	9.98%
Camiş Yatırım Holding A.Ş.	99.97%	100.00%
JSC İşbank	100.00%	100.00%
JSC İşbank Georgia	100.00%	100.00%
İş Finansal Kiralama A.Ş.	27.79%	57.39%
İş Gayrimenkul Yatırım Ortaklığı A.Ş.	42.23%	58.04%
İş Merkezleri Yönetim ve İşletim A.Ş.	86.33%	100.00%
İş Net Elektronik Bilgi Üret. Dağ. Tic. ve İlet. Hizm. A.Ş.	94.65%	100.00%
İş Yatırım Menkul Değerler A.Ş.	65.65%	70.69%
İşbank AG	100.00%	100.00%
Kredi Kayıt Bürosu A.Ş.	9.09%	9.09%
Kültür Yayınları İş Türk A.Ş.	99.17%	100.00%
Milli Reasürans T.A.Ş.	76.64%	77.06%
Nemtaş Nemrut Liman İşletmeleri A.Ş.	99.81%	100.00%
Trakya Yatırım Holding A.Ş.	65.34%	100.00%
Türkiye Sınai Kalkınma Bankası A.Ş.	40.52%	50.00%
Türkiye Şişe ve Cam Fabrikaları A.Ş.	65.47%	73.75%
INDIRECT SUBSIDIARIES		
	Direct Share	Bank's Risk Group Share Percentage
AC Glass Holding B.V.	0.00%	100.00%
Anadolu Anonim Türk Sigorta Şirketi	0.00%	64.31%
Anadolu Cam Eskişehir Sanayii A.Ş.	0.00%	100.00%
Anadolu Cam Investment B.V.	0.00%	100.00%
Anadolu Cam Sanayii A.Ş.	0.00%	78.45%
Anadolu Cam Yenişehir Sanayii A.Ş.	0.00%	100.00%
Anavarza Otelcilik A.Ş.	0.00%	50.00%
Automotive Glass Alliance Rus AO	0.00%	100.00%
Automotive Glass Alliance Rus Trading OOO	0.00%	100.00%
Balsand B.V.	0.00%	100.00%
Batı Karadeniz Elektrik Dağıtım ve Tic. A.Ş.	0.00%	65.00%
Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş.	0.00%	99.13%

(\*)Includes the direct and indirect subsidiaries and participations in which Bank's direct or indirect share is equal to or exceeds five percentage points.

INDIRECT SUBSIDIARIES	December 2016	
	Direct Share	Bank's Risk Group Share Percentage
Bilici Yatırım TSKB GYO Adana Oteli Projesi Adi Ortaklığı Ticari İşletmesi	0.00%	50.00%
Cam Elyaf Sanayii A.Ş.	0.00%	100.00%
Camış Ambalaj Sanayii A.Ş.	0.00%	100.00%
Camış Egypt Mining Ltd. Co.	0.00%	99.70%
Camış Elektrik Üretim A.Ş.	0.00%	100.00%
Camış Limited	0.00%	100.00%
Camış Madencilik A.Ş.	0.00%	100.00%
Casaba Yönetim İşl.İmal.İth.İhr.Paz.Sağ.Tem.Güv.Ulş.Tic.ve San.A.Ş.	0.00%	50.00%
CJSC Brewery Pivdenna	0.00%	100.00%
Covision Medical Technologies Limited	0.00%	100.00%
Cromital SPA	0.00%	100.00%
Çayırova Cam Sanayii A.Ş.	0.00%	100.00%
Denizli Cam Sanayii ve Ticaret A.Ş.	0.00%	51.00%
Efes Varlık Yönetim A.Ş.	0.00%	100.00%
Erişim Müşteri Hizmetleri A.Ş.	0.00%	100.00%
Glasscorp S.A.	0.00%	100.00%
HNG Float Glass Limited	0.00%	50.00%
İş Altınhas İnşaat Taahhüt ve Tic. A.Ş.	0.00%	50.00%
İş Faktoring A.Ş.	0.00%	100.00%
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	0.00%	57.67%
İş Investment Gulf Ltd.	0.00%	100.00%
İş Portföy Yönetimi A.Ş.	0.00%	100.00%
İş Yatırım Ortaklığı A.Ş.	0.00%	38.66%
JSC Mina	0.00%	100.00%
Kanyon Yönetim İşletim ve Pazarlama A.Ş.	0.00%	50.00%
Madencilik Sanayii ve Ticaret A.Ş.	0.00%	100.00%
Maxis Investments Ltd.	0.00%	100.00%
Maxitech Inc.	0.00%	100.00%
Mepa Merkezi Pazarlama A.Ş.	0.00%	99.95%
Merefa Glass Company Ltd.	0.00%	100.00%

## Direct and Indirect Subsidiaries

INDIRECT SUBSIDIARIES	December 2016	
	Direct Share	Bank's Risk Group Share Percentage
Mika Tur Seyahat Acenteliği ve Turizm A.Ş.	0.00%	20.00%
Miltaş Turizm İnşaat Ticaret A.Ş.	0.00%	88.00%
Nevotek Bilişim Ses ve İletişim Sistemleri San. ve Tic. A.Ş.	0.00%	81.24%
Nevotek Inter Corporation	0.00%	100.00%
Nevotek Middle East FZ Limited Liability Company	0.00%	100.00%
Num Num Yiyecek ve İçecek A.Ş.	0.00%	83.57%
Omco İstanbul Kalıp San. ve Tic. A.Ş.	0.00%	50.00%
OOO Energosystems	0.00%	100.00%
OOO Posuda	0.00%	100.00%
OOO Ruscam	0.00%	100.00%
OOO Ruscam Glass	0.00%	100.00%
OOO Ruscam Glass Packaging Holding	0.00%	100.00%
OOO Ruscam Management Company	0.00%	100.00%
Ortopro Tıbbi Aletler San. Tic. A.Ş.	0.00%	83.64%
Oxyvit Kimya Sanayii ve Ticaret A.Ş.	0.00%	50.00%
Paşabahçe (Shanghai) Trading Co. Ltd	0.00%	100.00%
Paşabahçe Bulgaria EAD	0.00%	100.00%
Paşabahçe Cam Sanayii ve Ticaret A.Ş.	0.00%	84.01%
Paşabahçe Glass GmbH	0.00%	100.00%
Paşabahçe Investment B.V.	0.00%	100.00%
Paşabahçe Mağazaları A.Ş.	0.00%	100.00%
Paşabahçe Spain SL	0.00%	100.00%
Paşabahçe SRL	0.00%	100.00%
Paşabahçe USA Inc.	0.00%	100.00%
Radore İnternet Hizmetleri A.Ş.	0.00%	25.50%
Radore Veri Merkezi Hizmetleri A.Ş.	0.00%	25.50%
Richard Fritz Holding GMBH	0.00%	100.00%
Richard Fritz Kft	0.00%	100.00%
Richard Fritz Prototype Spare Parts GmbH	0.00%	100.00%
Richard Fritz Spol S.R.O.	0.00%	100.00%

INDIRECT SUBSIDIARIES	December 2016	
	Direct Share	Bank's Risk Group Share Percentage
Rudnik Krecnjaka "Vijenac" D.O.O	0.00%	50.00%
SC Glass Trading B.V.	0.00%	100.00%
Soda Sanayii A.Ş.	0.00%	60.67%
Softtech Yazılım Teknolojileri Araştırma Gel. ve Paz. Tic. A.Ş.	0.00%	100.00%
Şişecam Automotive Bulgaria EAD	0.00%	100.00%
Şişecam (Shangai) Trade Co. Ltd.	0.00%	100.00%
Şişecam Bulgaria EOOD	0.00%	100.00%
Şişecam Chem Investment B.V.	0.00%	100.00%
Şişecam Çevre Sistemleri A.Ş.	0.00%	90.00%
Şişecam Dış Ticaret A.Ş.	0.00%	100.00%
Şişecam Enerji A.Ş.	0.00%	100.00%
Sisecam Flat Glass Italy S.r.l.	0.00%	100.00%
Şişecam Otomotiv A.Ş.	0.00%	100.00%
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	0.00%	100.00%
Şişecam Soda Lukavac DOO	0.00%	100.00%
Toksöz Spor Malzemeleri Tic. A.Ş.	0.00%	55.00%
Topkapı Yatırım Holding A.Ş.	0.00%	100.00%
Trakya Autoglass Holding B.V.	0.00%	100.00%
Trakya Cam Sanayii A.Ş.	0.00%	69.45%
Trakya Glass Bulgaria Ead	0.00%	100.00%
Trakya Glass Rus AO	0.00%	100.00%
Trakya Glass Rus Trading OOO	0.00%	100.00%
Trakya Investment B.V.	0.00%	100.00%
Trakya Polatlı Cam Sanayii A.Ş.	0.00%	100.00%
Trakya Yenişehir Cam Sanayii A.Ş.	0.00%	100.00%
TRSG Glass Holding B.V.	0.00%	70.00%
TSKB Gayrimenkul Değerleme A.Ş.	0.00%	100.00%
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	0.00%	60.63%
TSKB Sürdürülebilirlik Danışmanlığı A.Ş.	0.00%	99.42%
Yatırım Finansman Menkul Değerler A.Ş.	0.00%	98.42%

## Changes in Share Percentages in Subsidiaries (\*)

COMPANIES	Direct Share (%) December 2015	Direct Share (%) December 2016	Bank's Risk Group Share Percentage (%) December 2015	Bank's Risk Group Share Percentage (%) December 2016	Reason
<b>INDIRECT SUBSIDIARIES</b>					
Maxitech Inc.	0.00%	0.00%	0.00%	100.00%	Establishment
Şişecam Automotive Bulgaria EAD	0.00%	0.00%	0.00%	100.00%	Establishment
Şişecam Çevre Sistemleri A.Ş.	0.00%	0.00%	0.00%	100.00%	Establishment
Şişecam Flat Glass Italy S.r.l.	0.00%	0.00%	0.00%	100.00%	Establishment
Şişecam Otomotiv A.Ş.	0.00%	0.00%	0.00%	100.00%	Establishment
Cam Elyaf Sanayii A.Ş.	0.00%	0.00%	99.72%	100.00%	Share Purchase
JSC Mina	0.00%	0.00%	99.86%	100.00%	Share Purchase
Soda Sanayii A.Ş.	0.00%	0.00%	83.58%	60.70%	Sale of Share
TSKB Sürdürülebilirlik Danışmanlığı A.Ş.	0.00%	0.00%	97.00%	99.42%	Share Purchase
Şişecam Soda Lukavac DOO	0.00%	0.00%	89.30%	100.00%	Share Purchase
Anadolu Cam Sanayii A.Ş.	0.00%	0.00%	79.12%	78.45%	Sale of Share
Glasscorp S.A.	0.00%	0.00%	90.00%	100.00%	Share Purchase
Num Num Yiyecek ve İçecek A.Ş.	0.00%	0.00%	61.66%	83.57%	Share Purchase
Trakya Cam Sanayii A.Ş.	0.00%	0.00%	69.79%	69.45%	Sale of Share
OOO Balkum	0.00%	0.00%	50.00%	0.00%	Sale of the Company
PAO Ruscam Pokrovsky	0.00%	0.00%	100.00%	0.00%	Merger
Paşabahçe Yatırım ve Pazarlama A.Ş.	0.00%	0.00%	100.00%	0.00%	Merger

(\*) Includes the subsidiaries and participations in which Bank's direct or indirect share percentages exceeded five, ten, twenty, twenty-five, thirty three, fifty, sixty seven or hundred percent or fell below the said percentages and the reasons for these transactions.

## Amendments in the Articles of Incorporation in 2016 (\*)

ARTICLE NR.	PREVIOUS TEXT	NEW TEXT
5	<p><b>Capital</b></p> <p>The Corporation has accepted the registered capital system pursuant to the provisions of the Capital Market Law Nr.6362, and adopted the registered capital system as per the Capital Market Board permission dated 6.3.1997 and Nr.2683. The registered capital of the Corporation has been increased to TRY 10,000,000,000 (ten billion) by the permission of The Capital Markets Board Nr.311/1852) dated 21.02.2012.</p> <p>The issued and fully paid capital of the Corporation is TL 4,500,000,000 (four billion five hundred million) and TL 1,000 of it is composed of Group (A) shares each of which worth 1 Kuruş, TL 29,000 of it is composed of Group (B) shares each of which worth 1 Kuruş and TL 4,499,970,000 of it is composed of Group (C) shares each of which worth 4 Kuruş.</p> <p>The registered capital maximum level permission granted by the Capital Market Board is valid between 2012 and 2016 (5 years). Even if the registered capital maximum level is not reached by the end of 2016; the Board of Directors, in order to be able to resolve for another capital increase after 2016, is obliged to obtain permission from the Capital Markets Board for the previously permitted or a new maximum level amount and then obtain authorization from the General Assembly for a new time period.</p> <p>The Board of Directors is authorized to increase the issued capital by issuing registered shares up to the maximum level of the registered capital in accordance with the provisions of the Capital Market Law and the relevant legislation, whenever it deems necessary.</p> <p>However, no new shares can be issued unless all the issued shares are sold and their values are collected.</p> <p>All the shares of the Corporation are strictly required to be issued in return for cash; all of them must be registered and be quoted on the Stock Exchange.</p>	<p><b>Capital</b></p> <p>The Corporation has accepted the registered capital system pursuant to the provisions of the Capital Market Law, and adopted the registered capital system as per the Capital Market Board permission dated 6.3.1997 and Nr.2683. The maximum level of registered capital of the Corporation is TRY 10,000,000,000 (ten billion).</p> <p>The issued and fully paid capital of the Corporation is TL 4,500,000,000 (four billion five hundred million) and TL 1,000 of it is composed of Group (A) shares each of which worth 1 Kuruş, TL 29,000 of it is composed of Group (B) shares each of which worth 1 Kuruş and TL 4,499,970,000 of it is composed of Group (C) shares each of which worth 4 Kuruş.</p> <p>The registered capital maximum level permission granted by the Capital Market Board is valid between 2016 and 2020 (5 years). Even if the registered capital maximum level is not reached by the end of 2020; the Board of Directors, in order to be able to resolve for another capital increase after 2020, is obliged to obtain permission from the Capital Markets Board for the previously permitted or a new maximum level amount and then obtain authorization from the General Assembly for a new time period which shall not be more than five years. Unless such authorization is received, a capital increase cannot be made by a resolution of the Board of Directors.</p> <p>The Board of Directors is authorized to increase the issued capital by issuing registered shares up to the maximum level of the registered capital in accordance with the provisions of the Capital Market Law and the relevant legislation, whenever it deems necessary.</p> <p>However, no new shares can be issued unless all the issued shares are sold and their values are collected.</p> <p>All the shares of the Corporation are strictly required to be issued in return for cash; all of them must be registered.</p>

(\*) Includes the amendments in the Articles of Incorporation made at Extraordinary General Meeting on 28 March 2016.

## Amendments in the Articles of Incorporation in 2016

ARTICLE NR.	PREVIOUS TEXT	NEW TEXT
58	<p><b>Distribution of Dividends</b></p> <p>After deducting all general expenses from the income arising from the operations of the Bank within a year, including premiums and bonuses and similar payments to the personnel of the Bank, and funds for all kinds of depreciations, as well as necessary provisions, the net profit obtained shall partly be set aside as contingency reserves and partly distributed in the order, manner and at the rates indicated below:</p> <p>a) 1- 5% to statutory reserve fund, 2- 5% as provision for probable future losses, 3- 10% as first contingency reserve</p> <p>If the cause for setting aside of a provision and fund for a probable future loss and/or risk doesn't exist any more, the remaining fund will be added to first contingency reserve (a/3) after distribution of net profit referred to in paragraph (a).</p> <p>b) From the balance of the net profit after the reserve fund referred to in paragraph (a) above have been set aside, an amount equal to 6% of the paid up capital represented by Group A, B and C share certificates, shall be distributed to shareholders as the "first dividend".</p> <p>Should the profit realized in any year be insufficient to provide for the first dividend of 6% referred to above, the balance shall be made up and distributed out of the contingency reserve fund. Provided, however, that any amount thus taken out of the reserve fund shall constitute a charge to be made up out of the profits to be realized in the subsequent years.</p> <p>c) After the reserved fund and the first dividend referred to in paragraphs (a) and (b) above have been provided for, the balance of the net profit shall be set aside and distributed as follows:</p> <p>10% for founder shares (limited to the portion of TL 250 thousand - two hundred and fifty thousand - of paid capital)</p> <p>02.5% among the members of the Board of Directors and the General Manager equally,</p> <p>20% to the employees of the Bank, and 10% as second contingency reserve.</p>	<p><b>Distribution of Dividends</b></p> <p>After deducting all general expenses from the income arising from the operations of the Bank within a year, including premiums and bonuses and similar payments to the personnel of the Bank, and funds for all kinds of depreciations, as well as necessary provisions, the net profit obtained shall partly be set aside as contingency reserves and partly distributed in the order, manner and at the rates indicated below:</p> <p>a) 1- 5% to statutory reserve fund, 2- 5% as provision for probable future losses, 3- 10% as first contingency reserve</p> <p>If the cause for setting aside of a provision and fund for a probable future loss and/or risk doesn't exist any more, the remaining fund will be added to first contingency reserve (a/3) after distribution of net profit referred to in paragraph (a).</p> <p>b) From the balance of the net profit after the reserve fund referred to in paragraph (a) above have been set aside, an amount equal to 6% of the paid up capital represented by Group A, B and C share certificates, shall be distributed to shareholders as the "first dividend".</p> <p>Should the profit realized in any year be insufficient to provide for the first dividend of 6% referred to above, the balance shall be made up and distributed out of the contingency reserve fund. Provided, however, that any amount thus taken out of the reserve fund shall constitute a charge to be made up out of the profits to be realized in the subsequent years.</p> <p>c) After the reserved fund and the first dividend referred to in paragraphs (a) and (b) above have been provided for, the balance of the net profit shall be set aside and distributed as follows:</p> <p>10% for founder shares (limited to the portion of TL 250 thousand - two hundred and fifty thousand - of paid capital)</p> <p>20% to the employees of the Bank, and 10% as second contingency reserve.</p>

ARTICLE NR.	PREVIOUS TEXT	NEW TEXT
58	<p>d) After the amounts set forth in paragraphs (a), (b) and (c) have been set aside and distributed, the balance shall be distributed to the shareholders as "second dividend" in the manner stated below and taking into consideration paragraph (e).</p> <p>1- The net total of the dividends to be distributed to the holders of Group (A) shares as first and second dividends under paragraphs (b) and (d) may be not exceed 60% of the capital paid up by them, the net total of the dividends to be distributed to holders of Group(B) shares may not exceed 30 % of the capital paid up by them, and the net total of the dividends to be distributed to holders of Group (C) shares may not exceed 25% of the capital paid up by them.</p> <p>2- After the amounts set forth in paragraphs (a), (b) and (c) have been set aside and distributed, should the balance be insufficient to distribute the second dividend in the manner specified by the paragraph (1) above, twice the amount of the paid up capital represented by Group (A) shares the actual amount of the capital represented by Group (B) shares, and the 5/6 (five sixth) amount of the capital represented by Group (C) shares shall be taken as the basis, and, total dividends to be paid to the three Groups of shares shall be calculated separately in the distribution of the second dividend.</p> <p>e) The amount that needs to be added to the statutory reserve under paragraph 3 of Article 466 of the Turkish Commercial Code, shall be set aside.</p> <p>f) The General Assembly shall, upon proposal of the Board of Directors, decide whether the balance remaining after the distribution and allocation of the net profit as specified above shall be transferred to the extraordinary reserve funds, or carried over to the following year, or up to 80% of such amount be distributed to the shareholders by dividing of the same by the number of shares and the remaining balance be transferred to the extraordinary reserve funds or carried over to the following year.</p> <p>In the calculation of the dividends to be paid to all three Groups of shares; group A shares will be considered as 40 times the share quantity, due to the reason that 20 Group (A) shares each with a nominal value of TL 500 (this amount is related to the period prior to the Law regarding the Monetary Unit of the Turkish Republic (No:5083) on which the rate of change has not been applied) have been changed with 1 Group (A) share with a nominal value of 1 Kurus, Group B shares will be considered as 1.5.times of the share quantity, and Group C shares will be considered as the same quantity.</p>	<p>d) After the amounts set forth in paragraphs (a), (b) and (c) have been set aside and distributed, the balance shall be distributed to the shareholders as "second dividend" in the manner stated below and taking into consideration paragraph (e).</p> <p>1- The net total of the dividends to be distributed to the holders of Group (A) shares as first and second dividends under paragraphs (b) and (d) may be not exceed 60% of the capital paid up by them, the net total of the dividends to be distributed to holders of Group (B) shares may not exceed 30 % of the capital paid up by them, and the net total of the dividends to be distributed to holders of Group (C) shares may not exceed 25% of the capital paid up by them.</p> <p>2- After the amounts set forth in paragraphs (a), (b) and (c) have been set aside and distributed, should the balance be insufficient to distribute the second dividend in the manner specified by the paragraph (1) above, twice the amount of the paid up capital represented by Group (A) shares the actual amount of the capital represented by Group (B) shares, and the 5/6 (five sixth) amount of the capital represented by Group (C) shares shall be taken as the basis, and, total dividends to be paid to the three Groups of shares shall be calculated separately in the distribution of the second dividend.</p> <p>e) The amount that needs to be added to the statutory reserve under paragraph 2/c of Article 519 of the Turkish Commercial Code, shall be set aside.</p> <p>f) The General Assembly shall, upon proposal of the Board of Directors, decide whether the balance remaining after the distribution and allocation of the net profit as specified above shall be transferred to the extraordinary reserve funds, or carried over to the following year, or up to 80% of such amount be distributed to the shareholders by dividing of the same by the number of shares and the remaining balance be transferred to the extraordinary reserve funds or carried over to the following year.</p> <p>In the calculation of the dividends to be paid to all three Groups of shares; group A shares will be considered as 40 times the share quantity, due to the reason that 20 Group (A) shares each with a nominal value of TL 500 (this amount is related to the period prior to the Law regarding the Monetary Unit of the Turkish Republic (No:5083) on which the rate of change has not been applied) have been changed with 1 Group (A) share with a nominal value of 1 Kurus, Group B shares will be considered as 1.5. times of the share quantity, and Group C shares will be considered as the same quantity.</p>

## Information to Shareholders

**Corporate Title:** Türkiye İş Bankası Anonim Şirketi

**Trade Registry Number:** 431112

**Address:** İş Kuleleri 34330 Levent/İstanbul

**Website:** www.isbank.com.tr

**Contact Information of Branches:** Please visit www.isbank.com.tr

### Annual General Meeting:

As per the decision of the Board of Directors of İşbank, the Annual General Meeting of the Bank will be held at 14:00 on 31 March 2017, Friday in the İş Kuleleri Headquarters Auditorium, 34330 Levent-İstanbul.

### Independent Auditor:

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

A member firm of KPMG International Cooperative

İstanbul Head Office

Kavacık Rüzgarlı Bahçe Mah.

Kavak Sok. No: 29

Beykoz 34805 İstanbul

Telephone: +90 (216) 681 90 00

Fax: +90 (216) 681 90 90

### Company Announcements and Financial Data:

İşbank's financial statements, independent auditor's reports, annual reports, press releases and disclosures of material events are available on the Bank's corporate website under the title of Investor Relations, in both Turkish and English. In addition, information may also be requested via letter or e-mail from the Bank's Investor Relations Division, the contact information for which is given below.

### Investor Relations Division:

Süleyman H. Özcan, Division Head

İş Kuleleri Kule: 1

Kat: 15, 34330

Levent/İstanbul

Telephone: +90 (212) 316 16 02

E-mail: investorrelations@isbank.com.tr

### Dividend Payments:

İşbank's dividend payment policy is set out in detail in article 58 of the Bank's articles of incorporation. Information about the policy is provided in this annual report. The said information is also available on the Bank's corporate website under the title of Investor Relations, in Turkish and English.

### Company Share Information:

İşbank's Group A, Group B and Group C shares are listed on the Borsa İstanbul National Market. İşbank's Group C shares are traded on London Stock Exchange as Global Depositary Receipts, being subject to "Regulation S"; they are also traded on over-the-counter markets in the U.S.A. as American Depositary Receipts, being subject to "Rule 144 A.



[www.isbank.com.tr](http://www.isbank.com.tr)  
**TÜRKİYE İŞ BANKASI A.Ş.**

**Head Office**

İş Kuleleri 34330 Levent/İstanbul

**Telephone:** (+90 212) 316 00 00

**Fax:** (+90 212) 316 04 04

**Call Center:** (+90 850) 724 0 724

**E-mail:** [musteri.iliskileri@isbank.com.tr](mailto:musteri.iliskileri@isbank.com.tr)



This report has been printed on recycled paper.