

**TURKLAND BANK
ANONİM ŐİRKETİ**

**INTERIM CONDENSED FINANCIAL
STATEMENTS AT JUNE 30, 2017
TOGETHER WITH INDEPENDENT
AUDITOR'S REVIEW REPORT**

Report on review of interim condensed financial statements

To the Board of Directors of
Turkland Bank A.Ş.

Introduction

We have reviewed the accompanying interim condensed financial statements of Turkland Bank A.Ş. (the Bank) as at June 30, 2017, comprising of the interim statement of financial position as at June 30, 2017 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with IAS 34, (*“Interim Financial Reporting”*). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *“Review of Interim Financial Information Performed by the Independent Auditor of the Entity”*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standards IAS 34.

Other Matters

The financial statements of the Bank for the year ended December 31, 2016 and and interim condensed financial statements of the Bank for the six-month period ended June 30, 2016 were audited and reviewed by another auditor. The other independent auditor stated in their review report dated August 23, 2016 for interim condensed financial statements as of June 30, 2016 that nothing has come to their attention that causes them to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 and expressed unmodified opinion in their audit report dated February 15, 2017 for the financial statements that present fairly, in all material respects, the financial position of the Bank as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

İstanbul, Turkey
August 25, 2017

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TURKLAND BANK ANONİM ŞİRKETİ

INTERIM STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

	Notes	June 30, 2017	December 31, 2016
ASSETS			
Cash and due from banks	5	523,413	607,903
Money market placements and funds rent under resale agreements		-	-
Balances with Central Bank	5	475,225	563,098
Financial assets at fair value through profit or loss	6	-	-
Derivative financial instruments		5,458	2,780
Loans and advances	7	3,562,887	3,610,997
Investment securities:	6	817,192	372,085
- Available-for-sale	6	815,336	370,355
- Held-to-maturity	6	1,856	1,730
Securities pledged under repurchase agreements	6	-	385,779
- Available-for-sale	6	-	385,779
- Held-to-maturity	6	-	-
Premises and equipment		11,421	12,308
Intangible assets		13,722	13,266
Deferred tax asset	9	10,926	9,607
Current tax asset	9	981	1,104
Other assets		191,426	162,456
Total assets		5,612,651	5,741,383
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	8	3,694,936	4,065,888
Deposits from other banks	8	1,792	1,616
Obligations under repurchase agreements	6	-	373,315
Interbank money market borrowings		519,975	-
Derivative financial instruments		4,650	3,739
Funds borrowed		438,554	383,758
Other liabilities		132,919	102,795
Provisions		34,490	30,735
Total liabilities		4,827,316	4,961,846
EQUITY			
Share capital issued		683,398	683,398
Unrealized gains/(losses) on available-for-sale investments, net of tax		(28,151)	(27,512)
Reserves		19,011	17,480
Retained earnings		111,077	106,171
Total equity		785,335	779,537
Total liabilities and equity		5,612,651	5,741,383

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

TURKLAND BANK ANONİM ŞİRKETİ

INTERIM STATEMENT OF INCOME FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

	Notes	January 1 – June 30, 2017	January 1 – June 30, 2016
Interest income	10	295,090	273,703
Interest expenses	11	(191,359)	(182,437)
Net interest income		103,731	91,266
Fees and commissions and other operating income			
Fees and commissions income		13,951	13,774
Fees and commissions expenses		(840)	(610)
Net fees and commissions income		13,111	13,164
Trading gain/(loss), net		(2,207)	(8,508)
Provisions for impairment of loans and receivables		(22,104)	(19,041)
Foreign exchange gain / (loss), net		3,156	9,101
Other income	12	3,015	2,720
Operating expenses	13	(90,458)	(81,156)
Operating profit		8,244	7,546
Dividend income		10	9
Profit/ (loss) before income tax		8,254	7,555
Income tax – current	9	(3,593)	(2,938)
Income tax – deferred	9	2,129	1,576
Net profit from continuing operations		6,790	6,193

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

TURKLAND BANK ANONİM ŞİRKETİ

INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

	January 1- June 30, 2017	January 1- June 30, 2016
Net profit for the period	6,790	6,193
Other comprehensive income		
Fair value gains on available-for-sale financial assets, net of tax	(639)	15,093
Net change in fair values	(799)	18,866
Net amount transferred to income	-	-
Deferred tax on valuation differences	160	(3,773)
Other (*)	(353)	(365)
Other comprehensive income for the period, net of tax	(992)	14,728
Total comprehensive income for the period	5,798	20,921

(*) Comprised of actuarial gains and losses after January 1, 2017.

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

TURKLAND BANK ANONİM ŞİRKETİ

INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

	Notes	Share capital issued	Adjustment to share capital	Legal reserves, statutory reserves, extraordinary reserves (*)	Unrealized gains/(losses) on available-for-sale investments, net of tax	Accumulated losses/(Retained earnings)	Total
At January 1, 2016		650,000	33,398	15,921	(26,132)	88,787	761,984
Comprehensive income for the period		-	-	-	15,093	6,193	21,286
Actuarial gain and loss		-	-	(365)	-	-	(365)
Total comprehensive income for the period		-	-	(365)	15,093	6,193	20,921
Transfer to legal reserves, statutory reserves and extraordinary reserves		-	-	726	-	(726)	-
At June 30, 2016		650,000	33,398	16,282	(11,039)	94,262	782,905
At January 1, 2017		650,000	33,398	17,480	(27,512)	106,171	779,537
Comprehensive income for the period		-	-	-	(639)	6,790	6,151
Actuarial gain and loss		-	-	(353)	-	-	(353)
Total comprehensive income for the period		-	-	(353)	(639)	6,790	5,798
Transfer to legal reserves, statutory reserves and extraordinary reserves		-	-	1,884	-	(1,884)	-
At June 30, 2017		650,000	33,398	19,011	(28,151)	111,077	785,335

(*) As of June 30, 2017 the Bank's legal reserves amount to TRY 5,333 and other reserves amount to TRY 13,678.

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

TURKLAND BANK ANONİM ŞİRKETİ

INTERIM STATEMENT OF CASH FLOW FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

	Notes	January 1 – June 30, 2017	January 1 – June 30, 2016
Cash flow from operating activities			
Net profit for the period		6,790	6,193
Adjustments for:			
Depreciation and amortization		4,733	6,112
Provision for impairment of loans and advances		21,159	(24,951)
Provision for employment termination benefits		2,352	521
Other provision (income) / expenses		(4,221)	5,877
Foreign exchange gain / (loss)		(300)	4,456
Taxation		1,464	(1,724)
Accrued interest, net		(76,687)	(26,584)
Operating profit before changes in operating assets/liabilities		(44,710)	(30,100)
Changes in operating assets and liabilities:			
Reserve deposits with Central Bank		(106,933)	3,543
Other assets		(26,281)	(19,321)
Trading securities		-	25
Loans and advances		40,942	115,421
Deposits and obligations under repurchase agreements		(740,537)	(180,419)
Other creditors & liabilities		32,751	46,847
Income taxes paid		(4,574)	(2,938)
Employment termination benefits paid		(591)	(886)
Net cash provided by operating activities		(849,933)	(67,828)
Cash flows from investing activities			
(Additions)/disposals to premises and equipment		(1,215)	(23,186)
(Additions)/disposals to intangible assets		(3,087)	(3,874)
Cash paid for purchase of financial assets available-for-sale		(313)	(44,322)
Proceeds from sale of financial assets available-for-sale		116	56,177
Net book value of disposed premises and equipment		-	6,829
Proceeds from redemption of held-to-maturity investment securities		-	9,849
Net cash used in investing activities		(4,499)	1,473
Cash flows from financing activities			
Repayments of funds borrowed		(183,496)	(183,247)
Proceeds from funds borrowed		758,340	159,669
Net cash provided by financing activities		574,844	(23,578)
Effect of change in foreign exchange rates on cash and cash equivalents		300	(4,456)
Net increase in cash & cash equivalents		(279,288)	(94,389)
Cash and cash equivalents at the beginning of the year	5	926,300	583,088
Cash and cash equivalents at the end of the year	5	647,012	488,699

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

TURKLAND BANK ANONİM ŞİRKETİ

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

1. CORPORATE INFORMATION

On April 3, 2007, the title of the Bank was registered as “TURKLAND BANK Anonim Şirketi”.

According to the Share Sale and Purchase Agreement and Board of Directors’ Decision dated February 26, 2010 and July 15, 2010 respectively, Mehmet Nazif Günel’s 153 million shares with TRY 15,300 thousand nominal value were purchased by BankMed SAL. As of July 22, 2010 the share transfer was realized.

According to the Extraordinary General Assembly decision dated May 30, 2011, it was decided to increase the Bank’s capital from TRY 170,000 thousand to TRY 300,000 thousand, and it was registered in the Turkish Trade Registry Gazette dated June 20, 2011 numbered 7840. According to the Banking Regulation and Supervision Agency (BRSA) Approval dated September 15, 2011 numbered 4381 the unused preemptive right of Arab Bank Plc amounting to TRY 65,000 thousand have been used by Arab Bank (Switzerland) Ltd (ABS). Capital commitments which are amounting to TRY 130,000 thousand have been paid by shareholders and according to the BRSA decision dated October 20, 2011 numbered 22244 it has been transferred to the share capital accounts.

According to the Ordinary General Assembly decision dated April 18, 2013, it has been decided to increase the Bank’s paid in capital from TRY 300 million to TRY 500 million. The capital increase is committed to be paid in two equal installments, each one amounting to TRY 100 million, respectively on April 30, 2013 and October 30, 2013. BankMed SAL, shareholder of the Bank by 50%, has paid in cash TRY 50.0 million corresponding to its share for the capital increase; Arab Bank PLC, shareholder of the Bank by 28.3%, has paid in cash TRY 28.3 million corresponding to its share for the capital increase; Arab Bank (Switzerland), shareholder of the Company by 21.7%, has paid in cash TRY 21.7 million corresponding to its share for the capital increase. The capital commitments paid by the shareholders were transferred into the share capital accounts with the approval of BRSA dated May 28, 2013 and numbered 13388.

For the second installment of the capital increase; BankMed SAL, shareholder of the Bank by 50%, has paid in cash TRY 50 million corresponding to its share for the capital increase in October 4, 2013, Arab Bank PLC, shareholder of the Bank by 28.3%, has paid in cash TRY 28.3 million corresponding to its share for the capital increase and Arab Bank (Switzerland), shareholder of the Bank by 21.7%, has paid in cash TRY 21.7 million corresponding to its share for the capital increase in October 21, 2013. The capital commitments paid by the shareholders were transferred into the share capital accounts with the approval of BRSA dated November 11, 2013 and numbered 28000.

According to the Ordinary General Assembly decree dated April 15, 2014, it has been decided to increase the Bank’s paid in capital from TRY 500 million to TRY 650 million. In April, 2014, TRY 150 million has been paid in cash. The capital commitments paid by the shareholders were transferred into the share capital accounts with the approval of Banking Regulation and Supervision Agency dated August 28, 2014 and numbered 20637.

As of June 30, 2017, the Bank has 33 branches and 612 personnel (December 31, 2016; 33 branches, 608 personnel) in Turkey and its head office is at 19 Mayıs Mah. 19 Mayıs Cad. Şişli Plaza A Blok No: 7 Şişli-İstanbul. The parent and ultimate parent of the Bank is BankMed, SAL.

TURKLAND BANK ANONİM ŞİRKETİ

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. BASIS OF PREPARATION

These interim condensed financial statements as of and for the six-month period ended June 30, 2017 have been prepared in accordance with IAS 34 (Interim Financial Reporting). The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Bank's annual financial statements prepared in accordance with international Financial Reporting Standards (IFRS) for the year ended December 31, 2016.

The interim condensed financial statements are presented in the national currency of the Republic of Turkey, the Turkish lira ("TL").

New and Revised International Financial Reporting Standards

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

None.

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

Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 12</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2017.

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

This amendment clarifies the following aspects:

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

Amendments to IAS 7 *Disclosure Initiative*

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

Annual Improvements to IFRS Standards 2014–2016 Cycle

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

TURKLAND BANK ANONİM ŞİRKETİ

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. BASIS OF PREPARATION (continued)

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

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

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
IFRS 9	<i>Financial Instruments</i> ¹
IFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> ¹
IFRS 16	<i>Leases</i> ²
Amendments to IFRS 4	<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'</i> <i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
Amendments to IAS 40	<i>Transfers of Investment Property</i> ¹
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1</i> ¹ , <i>IAS 28</i> ¹
IFRS 17	<i>Insurance Contracts</i> ³
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after 1 January 2021.

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

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

IFRS 9 *Financial Instruments*

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

IFRS 15 *Revenue from Contracts with Customers*

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

The five steps in the model are as follows:

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

TURKLAND BANK ANONİM ŞİRKETİ

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. BASIS OF PREPARATION (continued)

New and Revised International Financial Reporting Standards (cont'd)

c) New and revised IFRSs in issue but not yet effective (cont'd)

Amendments to IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

Amendments to IFRS 4 Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The Interpretations Committee came to the following conclusion:

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

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Investment Property:

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

TURKLAND BANK ANONİM ŞİRKETİ

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. BASIS OF PREPARATION (continued)

c) New and revised IFRSs in issue but not yet effective (cont'd)

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRS 17 Insurance Contracts

This new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

IFRIC 23 Uncertainty over Income Tax Treatments

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances.

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

3. CHANGES TO CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing these interim condensed financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those that are applied in the annual financial statements for the year ended December 31, 2016.

4. SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

None.

TURKLAND BANK ANONİM ŞİRKETİ

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

5. CASH AND CASH EQUIVALENTS

	June 30, 2017	December 31, 2016
Cash on hand	53,408	47,575
Due from banks	470,005	560,328
Cash and due from banks	523,413	607,903

As of June 30, 2017, the Bank has no reverse repo transactions (December 31, 2016: None).

Cash and cash equivalents included in the statements of cash flows for the period ended June 30, 2017 and year-end are as follows:

	June 30, 2017	December 31, 2016
Cash and cash equivalents (including money market placements)	523,413	607,903
Balances with Central Bank	123,609	318,415
Less: income accruals	(10)	(18)
Cash and cash equivalents	647,012	926,300

Balances with Central Bank are as follows:

	June 30, 2017	December 31, 2016
Balances with Central Bank	123,609	318,415
Reserve deposits	351,616	244,683
Balances with Central Bank	475,225	563,098

TURKLAND BANK ANONİM ŞİRKETİ

**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017**

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

6. INVESTMENTS IN FINANCIAL INSTRUMENTS

Financial assets at fair value through profit and loss:

	June 30, 2017	December 31, 2016
Debt instruments		
Turkish government bonds	-	-
Total financial assets at fair value through profit and loss	-	-

Investment securities:

	June 30, 2017	December 31, 2016
Available- for-sale securities-Quoted		
Turkish government bonds	815,190	370,209
Eurobonds issued by the Turkish government	4	4
Total available for sale securities-Quoted	815,194	370,213
Available- for-sale securities-Unquoted		
Equity instruments	142	142
Total available for sale securities-Unquoted	142	142
Total available for sale securities	815,336	370,355
Held-to-maturity securities-Quoted		
Turkish government bonds	1,856	1,730
Total held-to-maturity securities	1,856	1,730
Total investment securities	817,192	372,085

In line with the accounting policy of the Bank, the Bank's investment of TRY 142 is recorded at cost since its fair value cannot be reliably estimated (December 31, 2016: TRY 142).

TURKLAND BANK ANONİM ŞİRKETİ

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

6. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

Securities pledged under repurchase agreements:

Carrying value of debt instruments given as collateral under repurchase agreements which are classified as loaned securities and related liabilities are:

	June 30, 2017		December 31, 2016	
	Assets	Related Liability	Assets	Related Liability
Available-for-sale securities	-	-	385,779	373,315
Held-to-maturity securities	-	-	-	-
Carrying value of securities under repurchase agreements	-	-	385,779	373,315

Available-for-sale securities given as collateral for Interbank money market, İstanbul Stock Exchange, Central Bank of The Republic of Turkey and Takasbank are TRY 34,580, TRY 35,622, TRY 726,539 and TRY 1,474 respectively (December 31, 2016: Available-for-sale securities given as collateral for open market transaction is TRY 26,028, TRY 33,101 hold for İstanbul Stock Exchange, TRY 82,601 hold for Interbank money market, and TRY 1,361 hold for Takasbank respectively). Net book value of unrestricted financial assets available-for-sale is TRY 17,117 (December 31, 2016: TRY 227,360) and included in this amount there are unquoted stocks amounting TRY 142 (December 31, 2016: TRY 142). As of June 30, 2017, there isn't any collateral or blocked investments held-to-maturity; Istanbul stock exchange collateral (December 31, 2016 : None)

The interest rates for floating TL investment securities is 5.25%. The interest rates for fixed rate TL currency investment securities are between 0.5% and 4.73% and a foreign currency investment security is 3.69%. (December 31, 2016: The interest rates for floating TL investment securities are between 0.5% and 4.87%. The interest rates for fixed rate TL currency investment security is 5.25%. The interest rate for foreign currency investment security is 3.69%).

7. LOANS AND ADVANCES

	June 30, 2017	December 31, 2016
Corporate, commercial and small business loans	3,402,410	3,471,226
- Export loans	500,569	353,251
- Loans given to financial sector	273,436	200,615
- Foreign loans	-	-
- Discount notes	2,444,095	2,718,346
- Other	184,310	199,014
Consumer loans (*)	6,611	7,552
Performing loans	3,409,021	3,478,778
Non-performing loans	282,835	240,029
Total loans and advances to customers	3,691,856	3,718,807
Provision for impairment	(128,969)	(107,810)
- Specific allowance for impairment	(79,122)	(60,534)
- Collective allowance for impairment	(53,248)	(50,370)
- Discounted future interest payments from NPL's	3,401	3,094
Net loans and advances to customers	3,562,887	3,610,997

(*) Comprises of mortgage, automotive and real personal loans.

The above distribution has been made based on the account codes.

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8. DEPOSITS

Deposits from banks;

	June 30, 2017	December 31, 2016
Demand	1,792	1,616
Time	-	-
Total	1,792	1,616

Customer deposits;

	June 30, 2017	December 31, 2016
Saving		
Demand	48,321	32,924
Time	2,058,207	2,248,235
	2,106,528	2,281,159

	June 30, 2017	December 31, 2016
Commercial and other		
Demand	138,829	126,041
Time	1,449,579	1,658,688
	1,588,408	1,784,729
Total	3,694,936	4,065,888

All deposits have fixed interests as of June 30, 2017 and December 31, 2016.

9. INCOME TAXES

The Bank is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Bank's results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rates of tax are as follows: 20% in 2017 and 2016.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2017 (2016: 20%).

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between the 1st to 25th of the fourth month following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

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9. INCOME TAXES (continued)

Income Withholding Tax:

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from April 24, 2003. This rate was changed to 15% with the Decree of the Council of Ministers of the Republic (Decree No. 2006/10731) commencing from July 23, 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

In the accompanying financial statements corporate tax and deferred tax asset/liability are comprised of the following:

	June 30, 2017	December 31, 2016
Current tax asset	981	1,104

Statement of Financial Position:

	June 30, 2017	December 31, 2016
Corporate taxes and funds receivable / (payable)	-	-
Deferred tax asset / (liability) (net)	10,926	9,607

Income Statement:

	June 30, 2017	June 30, 2016
Current income tax from continuing operations	(3,593)	(2,938)
Deferred tax (benefit) / charge from continuing operations	2,129	1,576
	(1,464)	(1,362)

	June 30, 2017	June 30, 2016
Current period tax receivable / (payable)	(3,593)	(2,938)
Prepaid tax	4,574	149
Total	981	(2,789)

Temporary differences and corresponding deferred taxes are as follows:

	June 30, 2017 Temporary Differences	June 30, 2017 Deferred Tax Asset/(Liability)
Loan impairment provision	24,534	4,907
Retirement pay and unused vacation provision	15,223	3,044
Provision (other)	9,477	1,895
Other	10,351	2,070
Useful life difference on premise and equipment and intangible assets	(1,554)	(311)
Discounted future interest payment from NPL's	(3,401)	(680)
Total	54,630	10,926

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9. INCOME TAXES (continued)

	December 31, 2016	December 31, 2016
	Temporary Differences	Deferred Tax Asset/(Liability)
Loan impairment provision	25,356	5,071
Retirement pay and unused vacation provision	13,464	2,693
Provisions (other)	9,469	1,894
Other	5,617	1,123
Discounted future interest payment from NPL's	(3,094)	(619)
Useful life difference on premises and equipment and intangible assets	(2,777)	(555)
Tax losses		
Total	48,035	9,607

Income tax can be reconciled to the profit per income statement as follows:

	June 30, 2017	June 30, 2016
Profit before income tax	8,254	7,555
Tax at the domestic income tax rate of 20% (2016: 20%)	(1,651)	(1,511)
Tax effect of non-deductible expenses, income that is deductible in determining taxable income and other adjustments, net	187	149
Tax charge per income statement	(1,464)	(1,362)

10. INTEREST INCOME

	June 30, 2017	June 30, 2016
Loans and receivables	215,645	233,994
Securities	70,375	31,221
Reserve requirements	4,574	4,065
Other interest income	2,378	2,739
Deposits with banks and other financial institutions	2,118	1,684
Total	295,090	273,703

11. INTEREST EXPENSES

	June 30, 2017	June 30, 2016
Customer deposits	(166,533)	(168,917)
Interest under repurchase agreement	(18,487)	(9,223)
Funds borrowed and deposits from other banks	(3,601)	(2,786)
Other interest expenses	(2,738)	(1,511)
Total	(191,359)	(182,437)

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12. OTHER INCOME

	June 30, 2017	June 30, 2016
Income from sales of assets written off	2,360	1,551
Income of prior year	279	876
Reversal of provisions	-	11
Other	376	282
Total	3,015	2,720

13. OPERATING EXPENSES

	June 30, 2017	June 30, 2016
Personnel expenses	45,526	40,078
Reserve for employee termination benefits	837	952
Taxes and duties	2,706	2,205
Depreciation expenses of fixed assets	2,165	2,171
Amortization expenses of intangible assets	2,631	3,482
Depreciation expenses of assets to be disposed	1,022	416
Other operating expenses	27,603	28,184
Rent expenses	9,796	9,438
Maintenance expenses	4,162	3,114
Advertisement expenses	275	239
Other expenses(*)	13,370	15,393
Loss on sales of assets	11	-
Other(**)	7,957	3,668
Total	90,458	81,156

(*) Included in other operating expenses; vehicle expenses are TRY 2,661, communication expenses are TRY 2,073, heating-lightening expenses are TRY 733, stationery expenses are TRY 390, cleaning expenses are TRY 511, non-deductible are expenses TRY 341, computer usage expenses are TRY 1,478, subcontractor company expenses are TRY 1,788, expertise expenses are TRY 443, common expenses are TRY 576, insurance expenses are TRY 465, representation expenses are TRY 1,132, other expenses are TRY 779 (June 30, 2016; vehicle expenses are TRY 2,466, communication expenses are TRY 1,941, heating-lightening expenses are TRY 738, stationery expenses are TRY 417, cleaning expenses are TRY 491, non-deductible expenses are TRY 297, other provisions are TRY 3,173, computer usage expenses are TRY 1,609, subcontractor company expenses are TRY 1,685, expertise expenses are TRY 712, company expenses are TRY 497, insurance expenses are TRY 384, representation expenses are TRY 263, and other expenses are TRY 720).

(**) Included in other; assurance and financial consultancy expenses are TRY 1,650, Saving Deposit Insurance Fund is TRY 1,164 and other expenses are TRY 5,143. (June 30, 2016: assurance and financial consultancy expenses are TRY 1,393, Saving Deposit Insurance Fund is TRY 1,185 and TRY 1,090 other expenses).

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14. RELATED PARTIES

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, directly and indirectly owned subsidiaries) has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. Related parties also include individuals that are principal owners, management and members of the Bank's Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Transactions with key management personnel:

Key management personnel comprise of the Bank's directors and key management executive officers.

The executive and non-executive members of Board of Directors and management received remuneration and fees are:

					June 30, 2017		June 30, 2016	
Salaries and short-term benefits					6,476		3,467	
June 30, 2017	Cash loans	Non-cash loans	Customers' deposits	Deposit with banks	Deposit from banks	Borrowings	Interest and commission income	Interest and commission expense
Direct and indirect shareholders of the Bank	141	41,363	-	-	1,221	20,478	14	405
Other entities included in the risk group	-	47,369	-	-	71,799	35,203	401	5,925
TOTAL	141	88,732	-	-	73,020	55,681	415	6,330

December 31, 2016	Cash loans	Non-cash loans	Customers' deposits	Deposit with banks	Deposit from banks	Borrowings	Interest and commission income(*)	Interest and commission expense(*)
Direct and indirect shareholders of the Bank	132	14,451	-	-	1,333	18,715	-	349
Other entities included in the risk group	-	51,223	-	-	81,827	52,763	200	2,869
TOTAL	132	65,674	-	-	83,160	71,478	200	3,218

(*) Prior year interest and commission income and expense amounts belong to June 30, 2016.

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15. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	June 30, 2017	December 31, 2016
Letters of guarantee issued	1,988,428	1,890,846
Letters of credit	216,659	234,477
Acceptance credits	6,277	6,465
Other	131,138	141,687
Total non-cash loans	2,342,502	2,273,475
Other irrevocable commitments	185,881	242,359
Total	2,528,383	2,515,834

As of June 30, 2017, forward marketable security purchase and sale commitments (included in irrevocable commitments) amount to TRY 3,415 (December 31, 2016: TRY 60,067).

Letters of Guarantee Given to Borsa Istanbul Stock Exchange (BIS)

As of June 30, 2017, according to general requirements of the ISE, letters of guarantee amounting to USD 1 million (December 31, 2016: USD 1 million) had been obtained from various local banks and were provided to ISE for bond and stock market transactions.

Litigation

According to the legal department of the Bank; the total number of ongoing cases against the Bank is 114. The total amount of those cases consists of TRY 10,292, USD 1,643 Thousand and EUR 193 Thousand. There is a provision of TRY 2,390 in the accompanying financial statements for these cases (December 31, 2016: TRY 2,216).

16. FINANCIAL RISK MANAGEMENT

Credit Risk

Performing Loans:

	Internal Rating Grade	June 30, 2017	(%)	December 31, 2016	(%)
High					
	Risk rating class 1	173,457	5.09	96,283	2.77
	Risk rating class 2	344,537	10.10	218,043	6.27
Good					
	Risk rating class 3	734,458	21.50	708,051	20.35
	Risk rating class 4	517,477	15.20	451,418	12.98
Standard					
	Risk rating class 5	482,445	14.20	549,541	15.80
	Risk rating class 6	593,687	17.42	694,570	19.96
Substandard					
	Risk rating class 7	343,504	10.08	453,903	13.05
	Risk rating class 8	122,499	3.59	179,402	5.16
	Risk rating class 9	86,192	2.50	117,427	3.38
	Risk rating class 10	3,651	0.11	920	0.03
Unrated		7,114	0.21	9,220	0.25
Total		3,409,021	100.00	3,478,778	100.00

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16. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The Bank uses 3 main factors for internal credit rating system. These are financial data, non-financial data and specialist decisions. Financial data consist of liquidity, financial structure, profitability, growth ratios and turnover rate. Non financial data consist of loan client business, relation with finance sector and sector analysis. The Bank measures the credit rating of companies by making comparisons regarding the financial data and non financial-data.

In the existing rating system, the collateral assigned to loans are not taken into account in the rating. The information about customers with F, E and D- rating is shown below.

“F” rating;

Number of clients with “F” rating is 8 with an outstanding risk of TRY 3,651 (December 31, 2016 : TRY 920; 8 client). 1 of these clients are granted against mortgage with outstanding risk of TRY 155 and covers 4% of total risk (December 31, 2016: 3 clients; TRY 714).

“E” rating;

Number of clients with “E” rating is 59 and total outstanding risk is TRY 86,192 (December 31, 2016 : TRY 117,427; 75 clients). 19 of these clients are granted against mortgage with outstanding risk of TRY 40,175 and covers 47% of total “E” Rating Risk (December 31, 2016 : TRY 58,654 TL; %50). 9 of these clients are granted against customer check/note with outstanding risk of TRY 7,640 and covers 9% of total “E” Rating Risk (December 31, 2016 : TRY 26,842; 23%). 5 of clients are granted against cash blockage provision with outstanding risk of TRY 5,197 and covers 4% of total “E” Rating Risk (December 31, 2016: TRY 3,125 TL; 3%). 6 of these clients are granted against assignment with outstanding risk of TRY 2,616 and covers 3% of total “E” Rating Risk (December 31, 2016: TRY 898; 1%) and 1 of these clients is granted against vehicle pledge and covers 0,4%.

“D-” rating;

Number of clients with D- rating is 111 and total outstanding risk is TRY 122,499 (December 31, 2016 : TRY 179,402; 136 client). 24 of these clients granted against mortgage have outstanding risk of TRY 46,640 and covers 38% of total “D-” Rating Risk (December 31, 2016 : TRY 111,267; 62%). 14 of these clients are granted against customer check/note with outstanding risk of TRY 11,954 and covers 10% of total “D-” Rating Risk (December 31, 2016 : TRY 14,754; 8%). 3 of these clients are granted against assignment with outstanding risk of TRY 5,748 and covers 5% “D-” rating risk. 7 of these clients are granted against cash blockage with outstanding risk of TRY 4,840 and covers 4% of “D-” rating risk (December 31, 2016: TRY 2,525; 1%)

There is no financial assets at fair value through profit or loss whose terms have been renegotiated.

Liquidity Risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows completely and timely.

Liquidity risk may also occur when the market penetration is not adequate, when the open positions cannot be closed quickly at suitable prices and sufficient amounts due to barriers and break-ups at the markets.

The Bank’s policy is to establish an asset structure that can meet all kinds of liabilities by liquid sources at all times. In this context, liquidity problem has not been faced in any period. In order to maintain this, the Board of Directors of the Bank continuously determines standards for the liquidity ratios, and monitors them.

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16. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

According to the general policies of the Bank, the matching of the maturity and interest rate structure of assets, and liabilities is always established within the asset liability management strategies. A positive difference is tried to be established between the yields of TRY and foreign currency assets and liabilities on the balance sheet and their costs. In this sense, various crisis scenarios which are prepared by risk management group are presented to management and audit committee.

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by deposits, and in addition to this source, it makes use of pre-financing and syndication products to generate additional sources.

Presentation of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 Month	1-3 Months	3-12 Months	Over 1 year	Undistributed	Total
June 30, 2017							
Total Assets	225,283	2,215,924	472,820	820,149	1,474,212	404,263	5,612,651
Total Liabilities	190,244	2,796,361	1,222,626	565,477	5,412	849,231	5,612,651
Liquidity Gap	35,039	(580,437)	(749,806)	254,672	1,468,800	(444,068)	-
December 31, 2016							
Total Assets	409,767	2,558,676	308,312	657,622	1,494,715	312,291	5,741,383
Total Liabilities	161,565	3,043,818	1,325,488	397,892	3,263	809,357	5,741,383
Liquidity Gap	248,202	(485,142)	(1,017,176)	259,730	1,491,452	(497,066)	-

Currency Risk

Foreign currency risk indicates the probability of loss that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration and value at risk is calculated by using the standard method.

The Board of Directors sets limits for the positions and stop losses which are followed up daily and weekly. Any possible changes in the foreign currency transactions in the Bank's positions are also monitored.

The carrying amount of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

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16. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

	EUR	USD	OTHER FC	TOTAL
June 30, 2017				
Total Assets (*) (***)	512,500	1,268,617	1,549	1,782,666
Total Liabilities	521,430	1,296,786	362	1,818,578
Net Balance Sheet Position	(8,930)	(28,169)	1,187	(35,912)
Net Off-Balance Sheet Position	8,793	27,196	-	35,989
Financial Derivative Assets (***)	24,731	107,580	-	132,311
Financial Derivative Liabilities (***)	(15,938)	(80,384)	-	(96,322)
Non-Cash Loans (**)	269,890	552,330	6,260	828,480
December 31, 2016				
Total Assets(*) (***)	493,755	1,336,793	4,159	1,834,707
Total Liabilities	449,004	1,411,240	3,127	1,863,371
Net Balance Sheet Position	44,751	(74,447)	1,032	(28,664)
Net Off-Balance Sheet Position	(44,930)	72,277	(108)	27,239
Financial Derivative Assets (***)	19,236	111,359	-	130,595
Financial Derivative Liabilities (***)	(64,166)	(39,082)	(108)	(103,356)
Non - Cash Loans (**)	265,057	486,565	3,722	755,344

(*) Foreign currency indexed loans amounting to TRY 338,432 (December 31, 2016: TRY 444,623) are included in the loan portfolio.

(**) There are no effects on the net off-balance sheet position.

(***) It includes also TRY 601 and TRY 1,707 forward asset purchase & sale commitments (December 31, 2016: TRY 27,766 and TRY 5,849).

Interest Rate Risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk for capital adequacy.

Risk Department performs duration, maturity and sensitivity analysis to protect the effect of interest rate volatility and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budget of the Bank. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budgeted targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank whenever necessary.

Since the Bank does not permit maturity mismatches or imposes limits on mismatch, a significant interest rate risk exposure is not expected.

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16. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

Information related to the interest rate sensitivity of assets and liabilities:

	Up to 1 Month	1-3 Months	3-12 Months	Over 1 Year	Non-interest bearing	Total
June 30, 2017						
Total Assets	2,242,481	1,078,673	1,091,036	877,195	323,265	5,612,651
Total Liabilities	2,674,104	1,227,276	565,477	5,412	1,140,382	5,612,651
Total interest sensitivity gap	(431,623)	(148,603)	525,559	871,783	817,117	-
December 31, 2016						
Total Assets	2,635,120	1,020,050	930,199	736,820	419,194	5,741,383
Total Liabilities	2,938,268	1,325,489	397,892	3,263	1,076,471	5,741,383
Total interest sensitivity gap	(303,148)	(305,439)	532,307	733,557	(657,277)	-

Capital Adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of June 30, 2017, the regulatory capital adequacy ratio of the Bank on an unconsolidated basis is above 12%.

	June 30, 2017	December 31, 2016
Tier I capital	746,616	738,507
Tier II capital	38,298	41,321
Deductions	(850)	(109)
Total regulatory capital	784,064	779,719
Risk-weighted assets (including market and operational risk)	5,055,640	4,884,687
Capital adequacy ratio (%)	15.51	15.96

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16. FINANCIAL RISK MANAGEMENT (continued)

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Bank's major financial instruments that are carried in the financial statements at other than fair values.

	Carrying value		Fair value	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Financial assets				
Money market placements and funds lent under resale agreements	-	-	-	-
Deposits with banks	470,005	560,328	470,005	560,328
Loans and receivables	3,562,887	3,610,997	3,537,426	3,659,693
Held-to-maturity investments	1,856	1,730	1,838	1,720
Financial liabilities				
Deposits from banks (*)	-	-	-	-
Customers' deposits(*)	3,507,786	3,906,923	3,507,933	3,907,185
Funds borrowed	438,554	383,758	438,717	384,367
Interbank money market borrowings	519,975	-	519,823	-
Obligations under repurchase agreements	-	373,315	-	373,315

(*) Demand deposits are not included.

Fair Value of Financial Instruments

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

i. Financial assets:

Money market placements and banks are carried at amortised cost values on the face of the financial statements and due to their short term nature, their fair values are considered to be approximate to their respective carrying values. The discount rate used to calculate the fair value of held to maturity investments and loans and receivables as of June 30, 2017 is the market rates available for the loan and security types.

ii. Financial liabilities:

The fair value of bank deposits, money market borrowings and sundry creditors are considered to approximate their respective carrying values amortised cost values due to their short term nature. The discount rate used to calculate the fair value of other deposits and funds borrowed as of June 30, 2017 is the market rates available for the borrowing and deposits types.

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16. FINANCIAL RISK MANAGEMENT (continued)

Fair Value of Financial Instruments (continued)

The fair values of financial assets and financial liabilities carried at fair value are determined as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is recorded on quoted market prices, those involving valuation techniques where all model inputs are observable in the market, and those where the valuation techniques involves the use of non observable inputs.

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Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

16. FINANCIAL RISK MANAGEMENT (continued)

Fair Value of Financial Instruments (continued)

June 30, 2017	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets designated at fair value through profit or loss	-	-	-	-
<i>Quoted Debt instruments</i>	-	-	-	-
Derivative financial instruments	-	5,458	-	5,458
<i>FX forwards, swaps, put, call options</i>	-	5,458	-	5,458
Available-for-sale financial assets	815,194	-	-	815,194
<i>Quoted Debt instruments</i>	815,194	-	-	815,194
Derivative financial liabilities held for trading	-	4,650	-	4,650
December 31, 2016	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets designated at fair value through profit or loss	-	-	-	-
<i>Quoted Debt instruments</i>	-	-	-	-
Derivative financial instruments	-	2,780	-	2,780
<i>FX forwards, swaps, put, call options</i>	-	2,780	-	2,780
Available-for-sale financial assets	755,992	-	-	755,992
<i>Quoted Debt instruments</i>	755,992	-	-	755,992
Derivative financial liabilities held for trading	-	3,739	-	3,739

Fair value of all Bank contracted derivatives is defined as level 2. These are mainly swaps and FX derivatives which are valued using discounted cashflow or present value calculation method. In all cases pricing is based on market observable inputs. Debt securities are priced in accordance to market quotes, therefore defined as level 1. There is no transfer between level 1 and level 2 as of June 30, 2017 (December 31, 2016 : None).

17. SUBSEQUENT EVENTS

None.