

**CONVENIENCE TRANSLATION
OF PUBLICLY ANNOUNCED
CONSOLIDATED FINANCIAL STATEMENTS
AND AUDIT REPORT
AT 31 DECEMBER 2016,
SEE NOTE I OF SECTION THREE**

HSBC BANK A.Ş.

**PUBLICLY ANNOUNCED
CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH AUDIT REPORT
AT 31 DECEMBER 2016**



**CONVENIENCE TRANSLATION INTO ENGLISH OF THE
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY PREPARED AND ISSUED IN TURKISH**

To the Board of Directors of HSBC Bank A.Ş.;

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of HSBC Bank A.Ş. ("the Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2016 and the related consolidated statement of income, consolidated income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Bank management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, other regulations on accounting records of Banks published by BRSA, circulars and interpretations published by BRSA, and 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.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with the "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and Independent Auditing Standards that are part of Turkish Standards on Auditing published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on independent auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the independent auditor considers internal control relevant to the bank's preparation and fair presentation of the 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 bank's internal control. An independent audit includes also 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 independent audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of HSBC Bank A.Ş. and its subsidiaries as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

Report on Other Responsibilities Arising From Regulatory Requirements

In accordance with subparagraph 4 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.

In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Additional Paragraph for Convenience Translation

The effects of differences between accounting principles and standards explained in detail in Section Three and accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

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

Zeynep Uras, SMMM
Partner

Istanbul, 1 March 2017



**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED
FINANCIAL STATEMENTS AND AUDITED REPORT
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**CONSOLIDATED FINANCIAL REPORT OF HSBC BANK A.S.
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016**

Address of Bank's Headquarters : Büyükdere Caddesi No 128 Esentepe, Şişli 34394, İstanbul
Telephone/Fax : (0212) 376 40 00 / (0212) 336 29 39
Web-site : www.hsbc.com.tr
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The consolidated year-end financial report prepared in accordance with Communiqué on the Financial Statements and the Related Disclosures and Footnotes to be Publicly Announced as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

- GENERAL INFORMATION ABOUT PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF PARENT BANK
- EXPLANATIONS ON ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE GROUP WHICH IS UNDER CONSOLIDATION
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT

Our subsidiaries, affiliates and jointly controlled partnership of which financial statements have been consolidated within the framework of this year's annual consolidated financial statements are:

	Participations	Subsidiaries	Investments
1.	HSBC Yatırım ve Menkul Değerler A.Ş.	-	-

The consolidated financial reports and explanations and footnotes in this report are prepared in accordance with the Regulation on Banks' Accounting Applications and Principles and Procedures Concerning the Preservation of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and annexes interpretations thereof and are denominated as **TL thousand** unless otherwise specified, are held subject to independent audit and are presented enclosed.

Hamit Aydoğan
Deputy
Chairman

Süleyman Selim Kervancı
General
Manager

Burçin Ozan
Finance
Assistant General
Manager

Yerihozan Kül
Group Head

Ian Simon Jenkins
Head of
Audit Comitee

Lütfiye Yeşim Uçtum
Member of
Audit Comitee

Information about the responsible personnel whom questions may be asked:

Name-Surname/Title : Zeynep Terzioğlu/Senior Manager
Tel : (0212) 376 4308
Fax : (0212) 376 4912

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CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

SECTION ONE

GENERAL INFORMATION

I. THE PARENT BANK’S FOUNDATION DATE, START-UP STATUS, HISTORY REGARDING THE CHANGES IN THIS STATUS

It has been approved by the decision of the Council of Ministers dated 27 June 1990 and numbered 90/644 that HSBC Bank A.Ş. (“the Bank”, “the Parent Bank”, “HSBC Bank”) was established to conduct banking activities and the articles of association published in the Official Gazette No. 2611 dated 18 September 1990. The Bank is a foreign-capitalized bank which has been registered in accordance with the Law on Encouraging Foreign Investments numbered 6224 100% of the shares of the Bank is owned by HSBC Bank Plc which is a bank established in England. On 20 September 2001 the ‘Share Sales Agreement’ regarding the sale of all shares of Demirbank T.A.Ş. which was under in Saving Deposit Insurance Fund was signed by the Bank’s main share holder HSBC Bank Plc. According to this agreement the required procedures shall be completed by 31 October 2001 and all shares of the Demirbank T.A.Ş., together with a part of the assets and liabilities shall be transferred to HSBC Bank Plc on 31 October 2001. In 14 December 2001, Demirbank T.A.Ş. and the Bank merged under the name of HSBC Bank Anonim Şirketi and continued its activities. On 19 September 2002, the Bank has signed the share sales agreement with Benkar Tüketici Finansmanı ve Kart Hizmetleri A.Ş. (“Benkar”) and acquired all shares of Benkar. On 25 December 2002 according to both Benkar’s and the Bank’s board of directors’ minute all assets and liabilities of Benkar is transferred to the Bank.

II. EXPLANATION ABOUT THE PARENT BANK’S CAPITAL STRUCTURE, SHAREHOLDERS OF THE PARENT BANK WHO ARE IN CHARGE OF THE MANAGEMENT AND/OR AUDITING OF THE PARENT BANK DIRECTLY OR INDIRECTLY, CHANGES IN THESE MATTERS (IF ANY) AND THE GROUP THAT THE BANK BELONGS TO

As of 31 December 2016, the Parent Bank’s nominal capital amounting to TL 652.290 is dividend to 65.229.000.000 shares with a nominal value of TL 0,01. The share capital of the Bank has been fully paid and registered. All shares of the Bank are owned by HSBC Bank Plc that is located in England and established in accordance with British Law. As of 31 December 2016 there has been no changes regarding the Bank’s capital structure and shareholders of the Bank who are in charge of the management or auditing of the Bank directly or indirectly.

An announcement was placed on Public Disclosure Platform on 9 June 2015 stating that HSBC Bank Plc, main shareholder of HSBC Bank A.Ş., has decided to sell its shares.

On 22 February 2016 HSBC Group announced that the process to sell HSBC Turkey had concluded with a decision to retain the business. In line with this decision, Bank took several important steps in year 2016. Strategic actions are taken to enhance its wholesale and premium positioning, to invest in core banking system and to re-focus the branch network.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

III. EXPLANATION ON THE BOARD OF DIRECTORS, MEMBERS OF THE AUDIT COMMITTEE, PRESIDENT AND EXECUTIVE VICE PRESIDENTS, SHARES OF THE BANK THEY POSSESS, AND THEIR AREAS OF RESPONSIBILITIES

<u>Title</u>	<u>Name</u>	<u>Title</u>	<u>Education</u>
Chairman of the Board:	Brian ROBERTSON(*)	Chairman	Undergraduate
Deputy Chairman of the Board:	Hamit AYDOĞAN	Deputy Chairman	Undergraduate
Board of Directors:	Süleyman Selim KERVANCI	Member and CEO	Graduate
	Paul HAGEN	Member	Graduate
	David Anthony HARNETT	Member	Undergraduate
	Mehmet Gani SÖNMEZ	Member	Undergraduate
	Ian Simon JENKINS	Member	Graduate
	Edward Michael FLANDERS	Member	Undergraduate
	Lütfiye Yeşim UÇTUM	Member	Undergraduate
	James Alasdair EMMETT	Member	Graduate
CEO:	Süleyman Selim KERVANCI	CEO	Graduate
Head of Internal Audit:	Umut PASİN	Head of Internal Audit	Undergraduate
Deputy CEO:	Necdet Murat ŞARSEL	Credit and Risk	Graduate
	Rüçhan ÇANDAR	Operations Service and Technology	Graduate
Executive Vice Presidents:	Necdet Murat ŞARSEL	Credit and Risk	Graduate
	Sait Burak ZEYLAN	Commercial Banking	Undergraduate
	Hulusi HOROZOĞLU	Corporate Investment Banking	Graduate
	Ayşe YENEL (**)	Retail Banking	Undergraduate
	Ali Batu KARAALI	Treasury and Capital Markets	Graduate
	Burçin OZAN	Finance	Undergraduate
	Ali Dündar PARLAR (***)	Internal Systems and Regulations	Undergraduate
	Rüçhan ÇANDAR	Technology and Services	Graduate
	Şengül DEMİRCAN(****)	Human Resources	Undergraduate
Audit Committee:	Ian Simon JENKINS	Head of the Audit Committee	Graduate
	Lütfiye Yeşim UÇTUM	Member of the Audit Committee	Undergraduate
	Paul HAGEN	Member of the Audit Committee	Graduate

The individuals mentioned above do not possess any share of the Parent Bank.

(*) Per the Board Decision no.13793 dated 30 January 2017, David Gordon ELTON is appointed as Chairman of the Board of Directors to replace Brian ROBERTSON as of 20 February 2017.

(**) Per the Board Decision no.13767 dated 14 December 2016, Ayşe YENEL, who is appointed as Interim Executive Vice President as of 1 May 2016 to replace Taylan TURAN according to the Board Decision no.13553 dated 15 April 2016, is appointed as Executive Vice President as of 1 January 2017.

(***) Per the Board Decision no.13796 dated 8 February 2017, Ali Dündar PARLAR resigned from his duty as of 15 February 2017.

(****) Per the Board Decision no.13804 dated 23 February 2017, Şengül DEMİRCAN is appointed as Executive Vice President as of 28 February 2017 to replace Hale ÖKMEN ATAKLI.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

IV. EXPLANATION ON INDIVIDUALS OR INSTITUTIONS OWNING THE PREFERRED SHARES OF THE PARENT BANK

Name/Commercial Title	Share Amounts (Nominal) (**)	Share Percentages	Paid-in Capital (Nominal) (**)	Unpaid Portion
HSBC Bank Plc (*)	652.289.996	99,99%	652.289.996	-

(*) HSBC Bank Plc is wholly owned by HSBC Holdings Plc and HSBC Holdings Plc is indirect shareholder of the Bank with 99,99% share.

(**) The amounts are expressed in full TL.

V. SUMMARY INFORMATION ON THE PARENT BANK’S SERVICE TYPE AND FIELDS OF OPERATION

The Parent Bank’s activities in accordance with related regulations and the section three of the articles of association of the Parent Bank summarized are as follows;

- To accept all kinds of deposits both in Turkish Lira and in foreign currency,
- To provide funds in Turkish Lira and foreign exchange, for own use or as an intermediary,
- To launch cash and non-cash loans to all kind of sectors,
- To perform discount and purchase activities,
- To perform order transmissons brokerage, transactions brokerage, portfolios brokerage, restricted custody and general custody activities in accordance with Capital Markets regulations,
- To invest in both local or foreign companies as founder partner or shareholder, to perform management and auditing process and to purchase equities, bonds and other securities,
- To perform factoring and forfeiting activities,
- To establish social and cultural facilities or to help or participate facilities in the existing.

In addition to regular banking operations in accordance to the articles of association, the Bank also provides insurance intermediary services as an agency of Axa Sigorta, Zurich Sigorta, Allianz Hayat ve Emeklilik, Allianz Sigorta, AIG Sigorta, Euler Hermes, and Anadolu Hayat Emeklilik through its branches and investment intermediary services as an agency of HSBC Yatırım.

As of 31 December 2016, the Parent Bank has 86 branches dispersed throughout the country and 4 branches operating abroad (31 December 2015: 280 branches and 4 branches operating abroad).

As of 31 December 2016, the number of employees of the Group is 3.240 (31 December 2015: 5.049).

VI. OTHER MATTERS

Unless otherwise stated, the consolidated financial statements and explanations and notes regarding the financial statements have been prepared in thousands of Turkish Lira.

VII. INFORMATION OF INSTITUTIONS IN CONSOLIDATION SCOPE

Parent Company “the Bank” and HSBC Yatırım Menkul Değerler A.Ş. (“HSBC Yatırım”) that is owned by the Bank and HSBC Portföy Yönetimi A.Ş. (“HSBC Portföy”) that is the subsidiary of the HSBC Yatırım are taken into consolidation scope.

The subsidiaries consolidated along with the Parent Bank are referred to as “the Group” in this report.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VIII. DIFFERENCES BETWEEN THE COMMUNIQUE ON PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF BANKS AND TURKISH ACCOUNTING STANDARDS AND SHORT EXPLANATION ABOUT INSTITUTIONS SUBJECT TO FULL CONSOLIDATION METHOD OR PROPORTIONAL CONSOLIDATION AND INSTITUTIONS WHICH ARE DEDUCTED FROM EQUITY OR NOT INCLUDED IN THESE THREE METHODS

Due to differences between Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards, the non-financial associates, HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş and HSBC İnternet ve Telekomünikasyon Hizmetleri A.Ş are not consolidated in the consolidated financial statements prepared in accordance with TAS based on line-by-line method. The Bank’s subsidiaries HSBC Yatırım ve Menkul Değerler A.Ş is included in the scope of consolidation by line-by-line method.

IX. THE EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES ON THE TRANSFER OF SHAREHOLDERS’ EQUITY BETWEEN THE PARENT BANK AND ITS SUBSIDIARIES OR REIMBURSEMENT OF LIABILITIES

None.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

SECTION TWO

CONSOLIDATED FINANCIAL STATEMENTS

- I. Consolidated Balance Sheet - Assets**
- I. Consolidated Balance Sheet - Liabilities**
- II. Consolidated Statements of Off - Balance Sheet Commitments**
- III. Consolidated Statements of Income**
- IV. Consolidated Statements of Profit and Loss Items Recognised Under Shareholders’ Equity**
- V. Consolidated Statements of Changes in Shareholders’ Equity**
- VI. Consolidated Statement of Cash Flows**
- VII. Statement of Profit Distribution**

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016 AND 31 DECEMBER 2015
(STATEMENT OF FINANCIAL POSITION)**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

**SECTION TWO
CONSOLIDATED FINANCIAL STATEMENTS**

I. BALANCE SHEET	Note (Section Five I)	Current Period (31.12.2016)			Prior Period (31.12.2015)		
		TL	FC	Total	TL	FC	Total
ASSETS							
I. CASH BALANCES WITH THE CENTRAL BANK	(I-a)	179.737	1.589.183	1.768.920	332.498	3.061.976	3.394.474
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT or (LOSS) (Net)	(I-b)	667.993	337.824	1.005.817	1.370.728	301.539	1.672.267
2.1 Trading Financial Assets		667.993	337.824	1.005.817	1.370.728	301.539	1.672.267
2.1.1 Government Debt Securities		65.051	24.551	89.602	997.127	18.524	1.015.651
2.1.2 Share Certificates		-	-	-	-	-	-
2.1.3 Trading Derivative Financial Assets		594.535	313.273	907.808	368.419	283.015	651.434
2.1.4 Other Marketable Securities		8.407	-	8.407	5.182	-	5.182
2.2 Financial Assets Designated at Fair Value through Profit or (Loss)		-	-	-	-	-	-
2.2.1 Government Debt Securities		-	-	-	-	-	-
2.2.2 Share Certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other Marketable Securities		-	-	-	-	-	-
III. BANKS	(I-c)	82.010	877.827	959.837	78.285	437.363	515.648
IV. MONEY MARKETS		-	4.372.998	4.372.998	2.490.732	1.388.808	3.879.540
4.1 Interbank Money Market Placements		-	-	-	-	226.495	226.495
4.2 Receivables from Istanbul Stock Exchange Money Market		-	-	-	-	-	-
4.3 Receivables from Reverse Repurchase Agreements		-	4.372.998	4.372.998	2.490.732	1.162.313	3.653.045
V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)	(I-d)	1.262.036	2.435	1.264.471	628.867	25.410	654.277
5.1 Share Certificates		5.567	2.435	8.002	4.385	25.410	29.795
5.2 Government Debt Securities		1.256.469	-	1.256.469	624.482	-	624.482
5.3 Other Marketable Securities		-	-	-	-	-	-
VI. LOANS AND RECEIVABLES	(I-e)	10.184.383	3.973.177	14.157.560	14.010.438	6.484.466	20.494.904
6.1 Loans and receivables		9.734.854	3.973.078	13.707.932	13.551.570	6.484.251	20.035.821
6.1.1 Loans to Bank's Risk Group	(VII)	-	7.404	7.404	-	-	20.399
6.1.2 Government Debt Securities		-	-	-	-	-	-
6.1.3 Other		9.734.854	3.965.674	13.700.528	13.551.570	6.463.852	20.015.422
6.2 Non-Performing Loans		1.430.801	165	1.430.966	1.244.755	330	1.245.085
6.3 Specific Provisions (-)		981.272	66	981.338	785.887	115	786.002
VII. FACTORING RECEIVABLES		476.308	-	476.308	536.832	47.236	584.068
VIII. INVESTMENT SECURITIES HELD-TO-MATURITY (Net)	(I-f)	-	-	-	-	-	-
8.1 Government Debt Securities		-	-	-	-	-	-
8.2 Other Marketable Securities		-	-	-	-	-	-
IX. INVESTMENTS IN ASSOCIATES (Net)	(I-g)	-	-	-	-	-	-
9.1 Associates Consolidated Based on Equity Method		-	-	-	-	-	-
9.2 Unconsolidated		-	-	-	-	-	-
9.2.1 Financial Investments in Associates		-	-	-	-	-	-
9.2.2 Non-financial Investments in Associates		-	-	-	-	-	-
X. SUBSIDIARIES (Net)	(I-h)	270	-	270	270	-	270
10.1 Unconsolidated Financial Subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated Non-financial Subsidiaries		270	-	270	270	-	270
XI. JOINT VENTURES (Net)	(I-i)	-	-	-	-	-	-
11.1 Accounted Based on Equity Method		-	-	-	-	-	-
11.2 Unconsolidated		-	-	-	-	-	-
11.2.1 Financial Joint Ventures		-	-	-	-	-	-
11.2.2 Non-financial Joint Ventures		-	-	-	-	-	-
XII. FINANCIAL LEASE RECEIVABLES (Net)	(I-j)	-	-	-	-	-	-
12.1 Financial Lease Receivables		-	-	-	-	-	-
12.2 Operating Lease Receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned Income (-)		-	-	-	-	-	-
XIII. HEDGING DERIVATIVE FINANCIAL ASSETS	(I-k)	69.454	-	69.454	20.666	-	20.666
13.1 Fair Value Hedge		-	-	-	-	-	-
13.2 Cash Flow Hedge		69.454	-	69.454	20.666	-	20.666
13.3 Foreign Net Investment Hedge		-	-	-	-	-	-
XIV. PROPERTY AND EQUIPMENT (Net)	(I-l)	81.599	-	81.599	87.566	-	87.566
XV. INTANGIBLE ASSETS (Net)	(I-m)	128.000	-	128.000	34.530	-	34.530
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		128.000	-	128.000	34.530	-	34.530
XVI. INVESTMENT PROPERTIES (Net)	(I-n)	-	-	-	-	-	-
XVII. TAX ASSET		4.556	-	4.556	24.557	-	24.557
17.1 Current Tax Asset		3.743	-	3.743	23.527	-	23.527
17.2 Deferred Tax Asset	(I-o)	813	-	813	1.030	-	1.030
XVIII. ASSETS HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(I-p)	2.742	-	2.742	3.444	-	3.444
18.1 Held for sale Purposes		2.742	-	2.742	3.444	-	3.444
18.2 Related to Discontinued Operations		-	-	-	-	-	-
XIX. OTHER ASSETS	(I-r)	99.024	18.354	117.378	166.739	139.896	306.635
TOTAL ASSETS		13.238.112	11.171.798	24.409.910	19.786.152	11.886.694	31.672.846

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016 AND 31 DECEMBER 2015
(STATEMENT OF FINANCIAL POSITION)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

I. BALANCE SHEET	Note (Section Five II)	Current Period (31.12.2016)			Prior Period (31.12.2015)		
		LIABILITES			LIABILITES		
		TL	FC	Total	TL	FC	Total
I. DEPOSITS	(II-a)	5.981.850	9.140.222	15.122.072	8.784.633	10.232.142	19.016.775
1.1 Deposits of Bank's Risk Group	(VII)	131.360	7.914	139.274	55.231	3.851	59.082
1.2 Other		5.850.490	9.132.308	14.982.798	8.729.402	10.228.291	18.957.693
II. TRADING DERIVATIVE FINANCIAL LIABILITIES	(II-b)	24.587	642.671	667.258	99.919	257.249	357.168
III. FUNDS BORROWED	(II-d)	212.631	2.128.378	2.341.009	622.385	4.729.208	5.351.593
IV. MONEY MARKETS		531.938		531.938	790.709		790.709
4.1 Funds from Interbank Money Market							
4.2 Funds from Istanbul Stock Exchange Money Market							
4.3 Funds Provided Under Repurchase Agreements	(II-c)	531.938		531.938	790.709		790.709
V. MARKETABLE SECURITIES ISSUED (Net)							
5.1 Bills							
5.2 Asset Backed Securities							
5.3 Bonds							
VI. FUNDS							
6.1 Borrower Funds							
6.2 Other							
VII. MISCELLANEOUS PAYABLES		339.910	4.303	344.213	404.148	251.486	655.634
VIII. OTHER LIABILITIES	(II-e)	239.967	20.605	260.572	395.665	80.156	475.821
IX. FACTORING PAYABLES							
X. FINANCIAL LEASE PAYABLES (Net)	(II-f)						
10.1 Financial Lease Payables							
10.2 Operational Lease Payables							
10.3 Other							
10.4 Deferred Financial Lease Expenses (-)							
XI. HEDGING DERIVATIVE FINANCIAL LIABILITIES	(II-g)				10.800		10.800
11.1 Fair Value Hedge							
11.2 Cash Flow Hedge					10.800		10.800
11.3 Foreign Net Investment Hedge							
XII. PROVISIONS	(II-h)	775.836	900	776.736	590.867	1.023	591.890
12.1 General Loan Loss Provision		412.254		412.254	457.075		457.075
12.2 Restructuring Provisions							
12.3 Reserve for Employee Rights		56.303		56.303	61.424		61.424
12.4 Insurance Technical Provisions (Net)							
12.5 Other Provisions		307.279	900	308.179	72.368	1.023	73.391
XIII. TAX LIABILITY	(II-i)	44.690		44.690	54.416		54.416
13.1 Current Tax Liability		44.690		44.690	54.416		54.416
13.2 Deferred Tax Liability							
XIV. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS	(II-j)						
14.1 Held for Sale Purpose							
14.2 Related to Discontinued Operations							
XV. SUBORDINATED LOANS	(II-k)		1.983.954	1.983.954		1.651.009	1.651.009
XVI. SHAREHOLDERS' EQUITY	(II-l)	2.337.468		2.337.468	2.696.703	20.328	2.717.031
16.1 Paid-in Capital		652.290		652.290	652.290		652.290
16.2 Capital Reserves		275.934		275.934	275.942	20.328	296.270
16.2.1 Share Premium							
16.2.2 Share Cancellation Profits							
16.2.3 Marketable Securities Valuation Differences		(1.194)		(1.194)	(4.190)	20.328	16.138
16.2.4 Property and Equipment Revaluation Differences							
16.2.5 Intangible Assets Revaluation Differences							
16.2.6 Revaluation Differences of Investment Property							
16.2.7 Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures (Business Partners)							
16.2.8 Hedging Funds (Effective portion)		4.435		4.435	7.439		7.439
16.2.9 Value Increase in Asset Held for Sale and Related to Discontinued Operations							
16.2.10 Other Capital Reserves		272.693		272.693	272.693		272.693
16.3 Profit Reserves		1.763.921		1.763.921	2.093.542		2.093.542
16.3.1 Legal Reserves		202.922		202.922	199.603		199.603
16.3.2 Status Reserves							
16.3.3 Extraordinary Reserves		1.586.675		1.586.675	1.915.065		1.915.065
16.3.4 Other Profit Reserves		(25.676)		(25.676)	(21.126)		(21.126)
16.4 Profit or Loss		(354.677)		(354.677)	(325.071)		(325.071)
16.4.1 Prior Years' Profit/(Loss)							
16.4.2 Current Year Profit/(Loss)		(354.677)		(354.677)	(325.071)		(325.071)
16.5 Minority Interest							
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10.488.877	13.921.033	24.409.910	14.450.245	17.222.601	31.672.846

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS AS OF 31
DECEMBER 2016 AND 31 DECEMBER 2015**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

II. OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	Current Period (31.12.2016)			Prior Period (31.12.2015)		
		TL	FC	Total	TL	FC	Total
A. OFF-BALANCE SHEET COMMITMENTS (I+II+III)		21.036.900	49.809.253	70.846.153	34.785.512	69.635.989	104.421.501
I. GUARANTEES AND WARRANTIES	(III-a-2,3)	828.588	1.821.812	2.650.400	807.726	2.266.393	3.074.119
1.1 Letters of Guarantee		828.498	939.230	1.767.728	807.726	860.479	1.668.205
1.1.1 Guarantees Subject to State Tender Law		-	-	-	-	-	-
1.1.2 Guarantees Given for Foreign Trade Operations		9.806	1.973	11.779	14.026	3.536	17.562
1.1.3 Other Letters of Guarantee		818.692	937.257	1.755.949	793.700	856.943	1.650.643
1.2 Bank Acceptances		-	58.547	58.547	-	470.727	470.727
1.2.1 Import Letter of Acceptance		-	58.547	58.547	-	470.727	470.727
1.2.2 Other Bank Acceptances		-	-	-	-	-	-
1.3 Letters of Credit		-	476.016	476.016	-	595.235	595.235
1.3.1 Documentary Letters of Credit		-	410.417	410.417	-	212.429	212.429
1.3.2 Other Letters of Credit		-	65.599	65.599	-	382.806	382.806
1.4 Refinancing Given as Guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of the Republic of Turkey		-	-	-	-	-	-
1.5.2 Other Endorsements		-	-	-	-	-	-
1.6 Securities Issue Purchase Guarantees		-	-	-	-	-	-
1.7 Factoring Guarantees		-	-	-	-	-	-
1.8 Other Guarantees		90	348.019	348.109	-	339.952	339.952
1.9 Other Collaterals		-	-	-	-	-	-
II. COMMITMENTS	(III-a-1)	7.089.287	4.634.919	11.724.206	15.173.412	16.264.504	31.437.916
2.1 Irrevocable Commitments		7.089.287	4.634.919	11.724.206	15.173.412	16.264.504	31.437.916
2.1.1 Asset Purchase and Sale Commitments		497.440	4.634.513	5.131.953	7.758.398	16.264.199	24.022.597
2.1.2 Deposit Purchase and Sales Commitments		-	-	-	-	-	-
2.1.3 Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4 Loan Granting Commitments		481.649	-	481.649	501.356	-	501.356
2.1.5 Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6 Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7 Commitments for Cheque Payments		489.020	-	489.020	545.564	-	545.564
2.1.8 Tax and Fund Liabilities from Export Commitments		4.962	-	4.962	5.330	-	5.330
2.1.9 Commitments for Credit Card Limits		4.797.889	-	4.797.889	5.373.983	-	5.373.983
2.1.10 Commitments for Credit Cards and Banking Services Promotions		17.609	-	17.609	20.325	-	20.325
2.1.11 Receivables from Short Sale Commitments of Marketable Securities		26.939	49	26.988	-	25	25
2.1.12 Payables for Short Sale Commitments of Marketable Securities		26.939	49	26.988	-	25	25
2.1.13 Other Irrevocable Commitments		746.840	308	747.148	968.456	255	968.711
2.2 Revocable Commitments		-	-	-	-	-	-
2.2.1 Revocable Loan Granting Commitments		-	-	-	-	-	-
2.2.2 Other Revocable Commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(III-b)	13.119.025	43.352.522	56.471.547	18.804.374	51.105.092	69.909.466
3.1 Hedging Derivative Financial Instruments		242.340	317.363	559.703	492.545	510.825	1.003.370
3.1.1 Transactions for Fair Value Hedge		-	-	-	-	-	-
3.1.2 Transactions for Cash Flow Hedge		242.340	317.363	559.703	492.545	510.825	1.003.370
3.1.3 Transactions for Foreign Net Investment Hedge		-	-	-	-	-	-
3.2 Trading Transactions		12.876.685	43.035.159	55.911.844	18.311.829	50.594.267	68.906.096
3.2.1 Forward Foreign Currency Buy/Sell Transactions		2.600.298	4.018.683	6.618.981	3.346.109	6.652.396	9.998.505
3.2.1.1 Forward Foreign Currency Transactions-Buy		1.635.326	1.643.719	3.279.045	1.914.888	3.074.738	4.989.626
3.2.1.2 Forward Foreign Currency Transactions-Sell		964.972	2.374.964	3.339.936	1.431.221	3.577.658	5.008.879
3.2.2 Swap Transactions Related to Foreign Currency and Interest Rates		6.774.122	33.254.460	40.028.582	10.938.979	38.273.022	49.212.001
3.2.2.1 Foreign Currency Swap-Buy		2.918.562	7.517.014	10.435.576	4.060.773	11.162.324	15.223.097
3.2.2.2 Foreign Currency Swap-Sell		3.855.560	6.285.948	10.141.508	6.878.206	7.752.896	14.631.102
3.2.2.3 Interest Rate Swap-Buy		-	9.725.749	9.725.749	-	9.678.901	9.678.901
3.2.2.4 Interest Rate Swap-Sell		-	9.725.749	9.725.749	-	9.678.901	9.678.901
3.2.3 Foreign Currency, Interest rate and Securities Options		3.502.265	5.727.374	9.229.639	4.026.741	5.361.504	9.388.245
3.2.3.1 Foreign Currency Options-Buy		1.749.825	2.865.145	4.614.970	2.006.761	2.687.318	4.694.079
3.2.3.2 Foreign Currency Options-Sell		1.752.440	2.862.229	4.614.669	2.019.980	2.674.186	4.694.166
3.2.3.3 Interest Rate Options-Buy		-	-	-	-	-	-
3.2.3.4 Interest Rate Options-Sell		-	-	-	-	-	-
3.2.3.5 Securities Options-Buy		-	-	-	-	-	-
3.2.3.6 Securities Options-Sell		-	-	-	-	-	-
3.2.4 Foreign Currency Futures		-	-	-	-	-	-
3.2.4.1 Foreign Currency Futures-Buy		-	-	-	-	-	-
3.2.4.2 Foreign Currency Futures-Sell		-	-	-	-	-	-
3.2.5 Interest Rate Futures		-	-	-	-	-	-
3.2.5.1 Interest Rate Futures-Buy		-	-	-	-	-	-
3.2.5.2 Interest Rate Futures-Sell		-	-	-	-	-	-
3.2.6 Other		-	34.642	34.642	-	307.345	307.345
B. CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		64.750.676	63.538.727	128.289.403	61.836.873	85.598.781	147.435.654
IV. ITEMS HELD IN CUSTODY		45.401.965	1.637.076	47.039.041	32.209.275	1.548.317	33.757.592
4.1 Customer Fund and Portfolio Balances		1.105.508	-	1.105.508	1.221.087	-	1.221.087
4.2 Investment Securities Held in Custody		23.776.174	1.472.204	25.248.378	17.037.112	1.215.692	18.252.804
4.3 Checks Received for Collection		1.053.137	66.521	1.119.658	2.187.204	249.317	2.436.521
4.4 Commercial Notes Received for Collection		134.247	-	134.247	128.629	-	128.629
4.5 Other Assets Received for Collection		-	9.613	9.613	-	8.462	8.462
4.6 Assets Received for Public Offering		-	-	-	-	-	-
4.7 Other Items Under Custody		19.332.899	88.738	19.421.637	11.635.243	74.846	11.710.089
4.8 Custodians		-	-	-	-	-	-
V. PLEDGES RECEIVED		12.294.107	13.802.990	26.097.097	12.179.624	14.162.474	26.342.098
5.1 Marketable Securities		665.475	1.328	666.803	903.674	16.840	920.514
5.2 Guarantee Notes		220.950	644.988	865.938	623.088	1.948.806	2.571.894
5.3 Commodity		240	7.743	7.983	240	6.410	6.650
5.4 Warranty		-	-	-	-	-	-
5.5 Immovable Properties		6.060.167	3.197.090	9.257.257	8.324.255	2.670.818	10.995.073
5.6 Other Pledged Items		5.347.275	9.951.841	15.299.116	2.328.367	9.519.600	11.847.967
5.7 Pledged Items-Depository		-	-	-	-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		7.054.604	48.098.661	55.153.265	17.447.974	69.887.990	87.335.964
TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)		85.787.576	113.347.980	199.135.556	96.622.385	155.234.770	251.857.155

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD ENDED
31 DECEMBER 2016 AND 31 DECEMBER 2015**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

III. STATEMENT OF INCOME			
INCOME AND EXPENSE ITEMS	Note (Section Five IV)	Current Period (01.01.2016 – 31.12.2016)	Prior Period (01.01.2015 – 31.12.2015)
I. INTEREST INCOME	(IV-a)	2.029.960	2.406.881
1.1 Interest Income on Loans	(IV-a-1)	1.805.018	1.960.326
1.2 Interest Received from Reserve Requirements		13.734	8.128
1.3 Interest Received from Banks	(IV-a-2)	14.867	100.193
1.4 Interest Received from Money Market Transactions		25.912	198.674
1.5 Interest Received from Marketable Securities Portfolio	(IV-a-3)	165.816	128.923
1.5.1 Trading Financial Assets		59.725	87.890
1.5.2 Financial Assets at Fair Value through Profit or (Loss)		-	-
1.5.3 Available-for-sale Financial Assets		106.091	41.033
1.5.4 Held to Maturity Investments		-	-
1.6 Financial Lease Income		-	-
1.7 Other Interest Income		4.613	10.637
II. INTEREST EXPENSE	(IV-b)	1.068.648	1.274.950
2.1 Interest Expense on Deposits	(IV-b-4)	756.467	924.267
2.2 Interest Expense on Funds Borrowed	(IV-b-1)	242.381	268.829
2.3 Interest Expense on Money Market Transactions		51.569	62.147
2.4 Interest on Securities Issued	(IV-b-3)	-	-
2.5 Other Interest Expenses		18.231	19.707
III. NET INTEREST INCOME/EXPENSE (I + II)		961.312	1.131.931
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		422.398	530.941
4.1 Fees and Commissions Received		465.239	576.389
4.1.1 Non-Cash Loans		20.944	17.860
4.1.2 Other	(IV-1)	444.295	558.529
4.2 Fees and Commissions Paid		42.841	45.448
4.2.1 Non-Cash Loans		564	389
4.2.2 Other		42.277	45.059
V. DIVIDEND INCOME	(IV-c)	-	2.289
VI. TRADING INCOME/(LOSS) (Net)	(IV-d)	64.015	37.057
6.1 Trading Gains/(Losses) on Securities		19.930	(9.311)
6.2 Derivative Financial Transactions Gains/(Losses)		529.842	696.073
6.3 Foreign Exchange Gains/(Losses)		(485.757)	(649.705)
VII. OTHER OPERATING INCOME	(IV-e)	221.376	181.232
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)		1.669.101	1.883.450
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(IV-f)	790.111	700.918
X. OTHER OPERATING EXPENSES (-)	(IV-g)	1.223.711	1.444.438
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		(344.721)	(261.906)
XII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-	-
XIII. INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-	-
XIV. INCOME/(LOSS) ON NET MONETARY POSITION		-	-
XV. INCOME/EXPENSE BEFORE TAXES FROM CONTINUING OPERATIONS (XI+XII+XIII+XIV)	(IV-h)	(344.721)	(261.906)
XVI. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(IV-i)	(9.956)	(63.165)
16.1 Current Tax Provision		(7.908)	(19.420)
16.2 Deferred Tax Provision		(2.048)	(43.745)
XVII. NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)	(IV-j)	(354.677)	(325.071)
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1 Income from Non-Current Assets Held for Resale		-	-
18.2 Profit from Sales of Associates, Subsidiaries and Joint Ventures (business partners)		-	-
18.3 Other Income From Discontinued Operations		-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1 Expenses for Non-Current Assets Held for Resale		-	-
19.2 Loss from Sales of Associates, Subsidiaries and Joint Ventures (business partners)		-	-
19.3 Other Expenses From Discontinued Operations		-	-
XX. PROFIT /LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-	-
XXI. PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)		-	-
21.1 Current Tax Provision		-	-
21.2 Deferred Tax Provision		-	-
XXII. NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-	-
XXIII. NET PROFIT/LOSSES (XVII+XXII)	(IV-k)	(354.677)	(325.071)
23.1 Group's Profit/Loss (-)		(354.677)	(325.071)
23.2 Minority Shares Profit/Loss (-)		-	-
Earnings/Loss per Share (The amounts are expressed in full TL)		(0,005437)	(0,004984)

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS RECOGNISED UNDER
SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED
31 DECEMBER 2016 AND 31 DECEMBER 2015**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

IV. STATEMENT OF PROFIT AND LOSS ITEMS RECOGNISED UNDER SHAREHOLDERS' EQUITY		
PROFIT AND LOSS ITEMS RECOGNISED UNDER SHAREHOLDERS' EQUITY	Current Period (31.12.2016)	Prior Period (31.12.2015)
I. ADDITIONS TO THE MARKETABLE VALUATION DIFFERENCES FROM THE AVAILABLE FOR SALE FINANCIAL ASSETS	(21.665)	11.003
II. PROPERTY AND EQUIPMENT REVALUATION DIFFERENCES	-	-
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	-	-
V. PROFIT OR LOSS ON CASH FLOW HEDGE DERIVATIVE FINANCIAL ASSETS (Effective part of the fair value differences)	(3.755)	10.101
VI. PROFIT/LOSS FROM FOREIGN INVESTMENT HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)	-	-
VII. THE EFFECT OF CHANGES IN ACCOUNTING POLICY AND ADJUSTMENT OF ERRORS	-	-
VIII. OTHER INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY ACCORDING TO TAS	(5.688)	(24.930)
IX. DEFERRED TAX RELATED TO VALUATION DIFFERENCES	6.222	765
X. NET PROFIT OR LOSS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	(24.886)	(3.061)
XI. CURRENT YEAR PROFIT/LOSS	(354.677)	(325.071)
11.1 Net Change in Fair Value of Marketable Securities (Transfer to Profit-Loss)	25.084	(544)
11.2 Reclassification of Cash Flow Hedge Transactions and Presentation of the Related Under Income Statement	(454)	(280)
11.3 Reclassification of Foreign Net Investment Hedge Transactions and Presentation of the Related Part Under Income Statement	-	-
11.4 Other	(379.307)	(324.247)
XII. TOTAL PROFIT/LOSS RELATED TO THE CURRENT PERIOD (X±XI)	(379.563)	(328.132)

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2015**
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																			
	Note (Section Five)	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Cancel- Profits	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit/(Loss)	Prior Period Net Profit/(Loss)	Marketable Sec. Valuation Differences	Rev. Diff. in Tangible and Intang. Assets	Bonus Shares from Investments	Hedging Funds	Rev. Diff. in Tangible Held for Sale/Disc- Operate	Minority Shares Except Total Equity	Minority Shares	Total Equity
31 December 2015																			
I.	Balances at the Beginning of the Period	652.290	-	-	-	196.002	-	1.975.770	271.511	(57.104)	-	7.336	-	-	(642)	-	3.045.163	-	3.045.163
II.	Corrections According to TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1	Correction of Errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2	Effects of the Changes in Accounting Policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Adjusted Balance (I+II)	652.290	-	-	-	196.002	-	1.975.770	271.511	(57.104)	-	7.336	-	-	(642)	-	3.045.163	-	3.045.163
Changes in the Period																			
IV.	Increase/Decrease due to the Merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	Marketable Securities Valuation Differences	(V-a)	-	-	-	-	-	-	-	-	-	8.802	-	-	-	-	8.802	-	8.802
VI.	Hedging Transactions Funds (Effective Parts)	-	-	-	-	-	-	-	-	-	-	-	-	-	8.081	-	8.081	-	8.081
6.1	Cash Flow Hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	8.081	-	8.081	-	8.081
6.2	Foreign Investment Hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Property and Equipment Revaluation Differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	Intangible Fixed Assets Revaluation Differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Foreign Exchange Differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	Changes due to the Disposal of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Changes due to the Reclassification of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Effect of the Changes in Investment in Associates' Equity to the Bank's Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Capital Increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1	Cash Increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2	Internal Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Share Premium	(V-d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Share Cancellation Profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	Paid in-Capital Adjustment Difference	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	Other	-	-	-	-	-	-	-	(19.944)	-	-	-	-	-	-	-	(19.944)	-	(19.944)
XIX.	Current Year Income or Loss	-	-	-	-	-	-	-	-	(325.071)	-	-	-	-	-	-	(325.071)	-	(325.071)
XX.	Profit Distribution	-	-	-	-	3.601	-	(60.705)	-	57.104	-	-	-	-	-	-	-	-	-
20.1	Dividends Paid	-	-	-	-	3.601	-	(60.705)	-	57.104	-	-	-	-	-	-	-	-	-
20.2	Transfers to Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at the End of the Period (I+II+III+.....+XIX+XX)		652.290	-	-	-	199.603	-	1.915.065	251.567	(325.071)	-	16.138	-	-	7.439	-	2.717.031	-	2.717.031

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2016**
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																			
	Note (Section Five)	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Cancel- Profits	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit/(Loss)	Prior Period Net Profit/(Loss)	Marketable Sec. Valuation Differences	Rev. Diff. in Tangible and Intang. Assets	Bonus Shares from Investments	Hedging Funds	Rev. Diff. in Tangible Held for Sale/Disc- Operate	Minority Shares Except Total Equity	Minority Shares	Total Equity
31 December 2016																			
I. Balances at the Beginning of the Period		652.290	-	-	-	199.603	-	1.915.065	251.567	(325.071)	-	16.138	-	-	7.439	-	2.717.031	-	2.717.031
Changes in the Period																			
II. Increase/Decrease due to the Merger																			
III. Marketable Securities Valuation Differences												(17.332)					(17.332)		(17.332)
IV. Hedging Transactions Funds (Effective Parts)															(3.004)		(3.004)		(3.004)
4.1 Cash Flow Hedge															(3.004)		(3.004)		(3.004)
4.2 Foreign Investment Hedge																			
V. Valuation Differences due to Revaluation of Property and Equipment	(V-a)																		
VI. Valuation Differences due to Revaluation of Intangible Assets																			
VII. Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures																			
VIII. Foreign Exchange Differences																			
IX. Changes due to the Disposal of Assets																			
X. Changes due to the Reclassification of Assets																			
XI. Effect of the Changes in Investment in Associates' Equity to the Bank's Equity																			
XII. Capital Increase																			
12.1 Cash Increase																			
12.2 Internal Resources																			
XIII. Share Premium																			
XIV. Share Cancellation Profits																			
XV. Paid in-Capital Adjustment Difference	(V-d)																		
XVI. Other									(4.550)								(4.550)		(4.550)
XVII. Current Year Income or Loss										(354.677)							(354.677)		(354.677)
XVIII. Profit Distribution						3.319		(328.390)		325.071									
18.1 Dividends Paid																			
18.2 Transfers to Reserves						3.319		(328.390)		325.071									
18.3 Other																			
Balances at the End of the Period (I+II+III+...+XVI+XVII+XVIII)		652.290	-	-	-	202.922	-	1.586.675	247.017	(354.677)	-	(1.194)	-	-	4.435	-	2.337.468	-	2.337.468

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED
31 DECEMBER 2016 AND 31 DECEMBER 2015**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VI. STATEMENT OF CASH FLOWS	Note (Section Five VI)	Current Period (31.12.2016)	Prior Period (31.12.2015)
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating Profit Before Changes In Operating Assets And Liabilities	(VI-a)	597.814	532.712
1.1.1 Interest Received	(VI-a)	2.054.614	2.316.727
1.1.2 Interest Paid	(VI-a)	(1.066.352)	(1.228.804)
1.1.3 Dividend Received		-	2.285
1.1.4 Fees and Commissions Received		462.949	566.196
1.1.5 Other Income		221.376	181.232
1.1.6 Collections From Previously Written-Off Loans and Other Receivables		272.736	238.205
1.1.7 Payments to Personnel and Service Suppliers	(VI-a)	(573.234)	(594.282)
1.1.8 Taxes Paid		(6.095)	(48.432)
1.1.9 Other		(768.180)	(900.415)
1.2 Changes in Operating Assets and Liabilities		706.609	(5.133.462)
1.2.1 Net (Increase)/Decrease in Trading Securities		916.341	(621.996)
1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-	-
1.2.3 Net (Increase)/Decrease in Banks		26.498	(41.544)
1.2.4 Net (Increase)/Decrease in Loans		5.707.336	(2.238.799)
1.2.5 Net (Increase)/Decrease in Other Assets		1.583.190	(374.041)
1.2.6 Net Increase/(Decrease) in Bank Deposits		89.958	(358.256)
1.2.7 Net Increase/(Decrease) in Other Deposits		(3.996.213)	408.378
1.2.8 Net Increase/(Decrease) in Funds Borrowed		(2.692.179)	(2.336.219)
1.2.9 Net Increase/(Decrease) in Payables		-	-
1.2.10 Net Increase/(Decrease) in Other Liabilities	(VI-a)	(928.322)	429.015
I Net Cash Provided From Banking Operations		1.304.423	(4.600.750)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II. Net Cash Provided From Investing Activities		(612.951)	(170.462)
2.1 Cash Paid for Acquisition of Investments, Associates and Subsidiaries (Business Partnerships)		-	-
2.2 Cash Obtained From Disposal of Investments, Associates and Subsidiaries (Business Partnerships)		-	-
2.3 Purchases of Property and Equipment		(32.058)	(12.457)
2.4 Disposals of Property and Equipment		11.352	3.412
2.5 Cash Paid for Purchase of Investments Available-for-Sale		(2.734.394)	(868.228)
2.6 Cash Obtained From Sale of Investments Available-for -Sale		2.152.500	726.151
2.7 Cash Paid for Purchase of Investment Securities		-	-
2.8 Cash Obtained From Sale of Investment Securities		-	-
2.9 Other		(10.351)	(19.340)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net Cash Provided From Financing Activities		-	-
3.1 Cash Obtained From Funds Borrowed and Securities Issued		-	-
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued		-	-
3.3 Issued Capital Instruments		-	-
3.4 Dividends Paid		-	-
3.5 Payments for Finance Leases		-	-
3.6 Other		-	-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(VI-a)	2.223	(2.498)
V. Net Increase/(Decrease) in Cash and Cash Equivalents (I+II+III+IV)		693.695	(4.773.710)
VI. Cash and Cash Equivalents at Beginning of the Period	(VI-d)	4.954.395	9.728.105
VII. Cash and Cash Equivalents at End of the Period	(VI-d)	5.648.090	4.954.395

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE PERIODS ENDED
31 DECEMBER 2016 AND 31 DECEMBER 2015**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VII.STATEMENT OF PROFIT DISTRIBUTION	Current Period (31/12/2016) (*)	Prior Period (31/12/2015) (**)
I. DISTRIBUTION OF CURRENT YEAR INCOME		
1.1. Current Year Income	(352.367)	(274.680)
1.2. Taxes And Duties Payable (-)	4.231	56.776
1.2.1 Corporate Tax (Income tax)	2.349	12.918
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	1.882	43.858
A. NET INCOME FOR THE YEAR (1.1-1.2)	(356.598)	(331.456)
1.3. Prior Year Losses (-)	-	-
1.4. First Legal Reserves (-)	-	1.336
1.5. Other Statutory Reserves (-)	-	-
B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	-	(332.822)
1.6. First Dividend To Shareholders (-)	-	-
1.6.1 To Owners Of Ordinary Shares	-	-
1.6.2 To Owners Of Privileged Shares	-	-
1.6.3 To Owners Of Preferred Shares	-	-
1.6.4 To Profit Sharing Bonds	-	-
1.6.5 To Holders Of Profit And Loss Sharing Certificates	-	-
1.7. Dividends To Personnel (-)	-	-
1.8. Dividends To Board Of Directors (-)	-	-
1.9. Second Dividend To Shareholders (-)	-	-
1.9.1 To Owners Of Ordinary Shares	-	-
1.9.2 To Owners Of Privileged Shares	-	-
1.9.3 To Owners Of Preferred Shares	-	-
1.9.4 To Profit Sharing Bonds	-	-
1.9.5 To Holders Of Profit And Loss Sharing Certificates	-	-
1.10. Second Legal Reserves (-)	-	-
1.11. Statutory Reserves (-)	-	-
1.12. Extraordinary Reserves	-	(332.822)
1.13. Other Reserves	-	-
1.14. Special Funds	-	-
II. DISTRIBUTION OF RESERVES	-	-
2.1. Appropriated 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 Privileged Shares	-	-
2.3.3 To Owners Of Preferred Shares	-	-
2.3.4 To Profit Sharing Bonds	-	-
2.3.5 To Holders Of Profit And Loss Sharing Certificates	-	-
2.4. Dividends To Personnel (-)	-	-
2.5. Dividends To Board Of Directors (-)	-	-
III. EARNINGS PER SHARE (***)		
3.1. To Owners Of Ordinary Shares	(0,005467)	(0,005081)
3.2. To Owners Of Ordinary Shares (%)	-	-
3.3. To Owners Of Privileged Shares	-	-
3.4. To Owners Of Privileged Shares (%)	-	-
IV. DIVIDEND PER SHARE		
4.1. To Owners Of Ordinary Shares	-	-
4.2. To Owners Of Ordinary Shares (%)	-	-
4.3. To Owners Of Privileged Shares	-	-
4.4. To Owners Of Privileged Shares (%)	-	-

(*) As of reporting date, yearly ordinary meeting of the General Assembly has not been held yet to decide on the profit distribution for the year 2016.

(**) The profit distribution table belongs to prior period becomes definite with the decision of Ordinary General Assembly after the publishing of 31 December 2015 financial statement dated to 29 March 2016 and rearranged in this direction.

(***) 1.000 nominal is expressed in full TL.

The accompanying explanations and notes set out on pages 15 to 104 form an integral part of these consolidated financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

SECTION THREE

EXPLANATIONS ON ACCOUNTING POLICIES

I. EXPLANATIONS ON BASIS OF PRESENTATION

a. The preparation of the consolidated financial statements and related notes and explanations in accordance with the Turkish Accounting Standards and Regulation on the Principles and Procedures Regarding Banks’ Accounting Application and Keeping Documents:

The consolidated financial statements are prepared within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and other regulations related to reporting principles 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 in case where a specific regulation is not made by BRSA, Turkish Accounting Standards, within the scope of interim reporting Turkish Accounting Standards 34 and Turkish Financial Reporting Standards (“TFRS”) and related appendices and interpretations (referred as “Turkish Accounting Standards” or “TAS”) put into effect by Public Oversight Accounting and Auditing Standards Authority (“POA”) (all referred as “Reporting Standards”). The format and content of the publicly announced consolidated financial statements and notes to these statements have been prepared in accordance with the “Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements”, published in Official Gazette no. 28337, dated 28 June 2012, and amendments to this Communiqué. The Group maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation.

The consolidated financial statements have been prepared in TL, under the historical cost convention as modified in accordance with inflation adjustments until 31 December 2004, except for the financial assets and liabilities which are carried at fair value.

The preparation of the consolidated financial statements in conformity with TAS requires the Bank Management to use of certain make assumptions and estimates on the assets and liabilities of the balance sheet and contingent issues as of the balance sheet date. These estimates are reviewed regularly and, when necessary, corrections are made and the effects of these corrections are reflected to the income statement. The estimates and projections used are explained in the corresponding disclosures.

The amendments of TAS and TFRS, except TFRS 9 Financial Instruments will come into force as of 01 January 2018, which have been effective as of reporting date have no impact on the accounting policies, financial position and performance of the Group.

b. Accounting policies and valuation principles applied in the preparation of consolidated financial statements:

The accounting policies and valuation principles applied in the preparation of consolidated financial statements are determined and applied in accordance with the reporting standards. These accounting policies and valuation principles are explained in explanations on accounting policies section.

c. Explanation for convenience translation into English:

The differences between accounting principles, as described in these preceding paragraphs and accounting principles generally accepted in countries in which the complying consolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in these consolidated financial statements. Accordingly, these consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

II. EXPLANATIONS ON STRATEGY OF USING FINANCIAL INSTRUMENTS AND EXPLANATIONS ON FOREIGN CURRENCY TRANSACTIONS

The main sources of the Parent Bank are customer deposits and borrowings from abroad. The Parent Bank’s liquidity structure covers the financing of all liabilities at due date. This liquidity structure of the Group has been established by keeping sufficient cash and cash equivalents. The Parent Bank, diversify its funding sources and keeping cash and cash equivalent adequately for constitute the provider liquidity structure which matured liability affordability.

The Group applies advanced methods of the Group in daily market risk managing and control activities. In measuring the market risk and determining limits, “Value at Risk” (“VaR”) approach is being applied. For the portfolios which are subject to market risk; interest rate and currency risks are monitored; with regard to this, limits such as daily and monthly maximum loss limits regarding the exchange rate and share price risk, Value at Risk limits, maturity limits and quantity limits are being applied. The limit usages are being monitored through various checkpoints and reported to the top management. Risk monitoring and control activities are being performed by independent units. For the portfolios which are subject to the interest risks, sensitivity of the changes in interest rates are being analyzed by “Present Value Basis Points” method (“PVBP”) and relevant limits are being determined.

Various stress scenarios, liquidity, gap, and volatility analysis have been performed regarding the control, monitor and management of the market risks. The purpose of these analyses is to be prepared for the possible risks and to make quick decisions regarding the targeted profitability.

Analyses that are conducted related to determined risks are being tracked by committees such as the Asset-Liability committee and the Market Risk Committee and value adding decisions are made. The foreign exchange gains and losses from the foreign exchange transactions are being recorded at the date of transactions conducted. Foreign currency denominated monetary assets and liabilities are translated with the Parent Bank’s exchange rates. Gains and losses arising from such valuations are recognised in the income statement under the account of “Foreign exchange gains or losses”, except for foreign currency non-performing loans and other foreign currency denominated non monetary assets and liabilities.

III. EXPLANATIONS ON CONSOLIDATED INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

The Group has no investments in associates as of 31 December 2016. HSBC Yatırım that is fully owned by the Bank, HSBC Portföy that is the subsidiary of HSBC Yatırım and HSBC Portföy that is the subsidiary of the HSBC Yatırım are taken into consolidation scope in accordance with the procedures listed in the “Communiqué related to the Regulation on the Preparation of the Financial Statements of the Banks” and the “Turkish Accounting Standard for Consolidated and Separate Financial Statements” (“TAS 27”) published in the Official Gazette No.26340 dated 8 November 2006.

IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

In order to reduce the foreign exchange position risk the Group conducts currency forward purchase and sale transaction agreements, currency swap purchase and sale transaction agreements and option purchase and sale agreements. In order to reduce the interest risk, the Group conducts interest futures, interest swaps and forward interest rate agreements. According to TAS 39 the transactions which are classified as hedging or trading and recognised at fair value. The fair value of derivative instruments are recorded on the market value or discounted cash flow value is taken in the account. If the fair value of derivative financial instruments is positive, it is disclosed under the main account “Financial assets at fair value through profit or loss” in “Trading derivative financial assets” or “Hedging derivative financial assets” and if the fair value difference is negative, it is disclosed in “Trading derivative financial liabilities” or “Hedging derivative financial liabilities”. The fair value changes of the trading derivatives are recognized under “Derivative financial transactions gains/(losses)” at income statement. The Parent Bank applies cash flow hedge accounting by cross currency swap transactions in order to hedge itself from the changes in the interest rates of the fixed-rate time deposits which have maturity of 1-3 month. While the effective portions are accounted under hedging reserves in shareholders’ equity as described in TAS 39, the ineffective portion is recognized at income statement.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

V. EXPLANATIONS ON INTEREST INCOME AND EXPENSES

Interest income and expenses are recognised on an accrual basis using the effective interest rate method. In accordance with the related regulation, realized and unrealized interest accruals of the non performing loans are reversed. The interest income related to these loans are recorded as interest income only when collected.

VI. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSES

All fees and commission income/expenses are recognised on an accrual basis in accordance with the matching principle or “Effective Rate Method (Internal Rate of Return Method)”, except for certain commission income and fees for various banking services which are recorded as income at the time of collection. Contract based fees or fees received in return for services such as the purchase and sale of assets on behalf of a third party or legal person are recognised as income at the time of collection.

VII. EXPLANATIONS ON FINANCIAL ASSETS

The Group categorizes its financial assets as “Fair value through profit/loss”, “Available-for-sale”, “Loans and receivables” and “Held-to-maturity”. The appropriate classification of financial assets of the Group is determined at trade dates.

a. Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss consist of trading financial assets and financial assets at fair value through profit or loss. They are initially recognised at cost and subsequently re-measured at their fair value. While determining the fair value, the average price comprising in the active market is used and the gains and losses generated is recognized in the income statement.

Derivative financial instruments are treated as trading financial assets unless they are designated as hedge instruments. The principles regarding the accounting of derivative financial instruments are explained in detail in Note IV of Section Three.

b. Financial assets available-for-sale:

Available-for-sale financial assets are defined as financial assets other than the ones classified as “Loans and receivables”, “Held-to-maturity assets” or “Financial asset at fair value through profit or loss”. Financial assets available for sale are measured at fair value. Unrealized gains and losses arising from the changes in the fair value of financial assets available for sale with fixed maturity and certain cash flow are recognised at “Marketable Securities Valuation Differences” under the shareholders’ equity. The interest income which is calculated with the effective interest rate method is recognised in the income statement. When these securities are disposed of, the related fair value differences accumulated in the shareholders’ equity are transferred to the income statement. Available-for-sale equity securities that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value and mentioned valuation differences are recognised at “Marketable Securities Valuation Differences”. Available-for-sale equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

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VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

c. Loans and receivables:

Financial assets that are originated by the Group by providing money, services or goods to borrowers are categorized as loans and receivables. Loans and receivables originated by the Group are recognised at the amortised cost value calculated using the effective interest rate method.

The Group makes risk assessment for the loans and receivables on the consumer and portfolio basis and provides specific provisions for the non performing loans not less than the determined minimum rates according to the (“Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside”) published in the Official Gazette dated 1 November 2006 and numbered 26333. In addition to the non-performing loans, the Group provides general loan loss provisions for the loans and receivables which are defined in the same communiqué. The interests and accruals of the non-performing loans are derecognised from the financial statement and provision expense is recognized in the income statement . Releases of current period provisions are made by the reversal of the amount from the “Provision for Impairment of Loans and Other Receivables” account.

d. Investment securities held-to-maturity:

Investment securities held-to-maturity are financial assets that are not classified under loans and receivables and have fixed maturities and fixed or pre-determined payments where management has the intent and ability to hold the financial assets until maturity. Investment securities held-to-maturity are initially recognised at cost, and subsequently carried at amortized cost using the effective interest rate method; interest earned whilst holding investment securities held-to-maturity is reported as interest income and impairment for these financial assets recognised in the income statement. As of 31 December 2016 and 31 December 2015, the Group has no investment securities held-to-maturity.

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

In each balance sheet date, the Group assesses if there is an objective evidence of the impairment of financial assets or financial asset groups. If such an indicator exists, the Group will perform the calculations. Impairment loss incurs if and only if, there is an objective evidence that the expected future cash flows of financial assets of group of financial assets are adversely affected by an event (“loss event”) incurred subsequent to recognition. In case the loans could not be collected; loans and other receivables are classified in order to provide specific and general provisions in accordance with the Communiqué on “Regulation on the Principles and Procedures Related to the Determination of the Loans and Other Receivables for which Provisions Shall be Set Aside by Banks and to the Provisions to be Set Aside” published in the Official Gazette No. 26333 dated 1 November 2006 and these provisions are changed against the income for the year.

IX. EXPLANATIONS ON OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognised amounts and there is an intention to collect/pay related financial assets and liabilities on a net basis.

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X. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS AND SECURITIES' LENDING TRANSACTIONS

Securities subject to repurchase agreements are classified as "Financial assets at fair value difference through profit or loss" and "Available-for-sale securities" in the balance sheet according to the investment purposes and measured according to the portfolio of the Group to which they belong. The interest expense rediscount for funds obtained under repurchase agreement which is calculated with the effective interest rate method are recognised in the income statement. As of 31 December 2016 and 31 December 2015, funds given against securities purchased under agreements to resell ("Reverse repurchase agreements") are accounted under "Receivables from money market - Receivables from reverse repurchase agreements" in the balance sheet. The difference between the purchase and resell price determined by these repurchase agreements is accrued evenly over the life of repurchase agreements using the effective interest rate method. The Group has no securities lending transactions.

XI. EXPLANATIONS ON PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS AND EXPLANATIONS ON LIABILITIES RELATED WITH THESE ASSETS

As of 31 December 2016 and 31 December 2015, the Group has no discontinued operations. Property and equipment held-for-sale consist of tangible assets that were acquired due to nonperforming receivables, and are accounted in the consolidated financial statements in accordance with "Communiqué Regarding the Principles and Procedures for the Disposals of Immovable and Commodities Acquired due to Receivables and for Trading of Precious Metal" published in the Official Gazette dated 1 November 2006, No.26333 and classified as assets held for sale.

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank's intangible assets are composed of software, goodwill and establishment expenditures. Intangible assets are measured in accordance with "Intangible Assets Standard" ("TAS 38") at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical cost after the deduction of accumulated depreciation and the provision for value decreases. The depreciable amount of an intangible asset is allocated on a systematic basis over its useful life. The costs of the intangible assets purchased before 31 December 2004, end of the high inflation period is accepted as 31 December 2004, are subject to inflation indexation until 31 December 2004. Intangible assets purchased after 31 December 2004 are recognised with their acquisition cost in the financial statements.

The Parent Bank purchased Benkar Tüketici Finansmanı A.Ş. in the year 2002. The useful life of the goodwill arising out of the merger of Benkar with the Bank on 26 December 2002 is determined as 10 years. Therefore, it is amortised until the end of October 2006 using the straight-line method. Regarding Article 4 of the "Communiqué on Principles and Procedure of Accounting Principles of Banks and Preservation of Documents" which was published by BRSA in the Official Gazette No. 26333 dated 1 November 2006, the Bank's financial statements are prepared based on the Turkish Accounting Standards. Goodwill is tested annually or more frequently if the changes in environment indicates impairment, in line with "Turkish Accounting Standard for Impairment on Assets" ("TAS 36"). The Parent Bank has used discounted cash flow method for the most recent impairment test and reevaluated assumptions and estimations considering projections of the personal banking department. Calculated goodwill impairment was reflected on the income statement as of 2015 per testing results.

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XIII. EXPLANATIONS ON PROPERTY AND EQUIPMENT

All property and equipment are measured in accordance with "Property, Plant and Equipment Standard" ("TAS 16") at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment is carried at cost less accumulated depreciation and provision for value impairment. The costs of the property and equipment purchased before 31 December 2004 or subject to inflation indexation until 31 December 2004. Property and equipment 31 December 2004 are recognised with their purchase cost in the financial statements. Property and equipment are amortised by using the straight line method based on their useful lives, such as buildings depreciated at rate 2%, transportation vehicles at rates 15% - 20%, furnitures at rate 20%, other tangible assets at rates ranging from 2% to 33%. The depreciation charge for items remaining in the property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item will remain in property and equipment. Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its net sales revenue. Repair and maintenance expenses in order to increase the useful life of the property and equipment are capitalized, other repair and maintenance costs are recognised as expenses. There are no mortgages, pledges or similar precautionary measures on tangible fixed assets.

XIV. EXPLANATIONS ON LEASING TRANSACTIONS

Assets acquired under finance lease agreements are capitalized in accordance with "Leases Standard" ("TAS 17") at the inception of the lease at the "Lower of the fair value of the leased asset or the present value of the lease instalments to be paid for the leased asset". Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of the asset. If there is any diminution in value of the leased asset, a "Provision for value decrease" is recognised. Liabilities arising from the leasing transactions are included in "Finance lease payables" in the balance sheet. Interest and foreign exchange expenses regarding lease transactions are presented the income statement. The Group does not provide finance lease services as a "Lessor". Transactions regarding operational lease agreements are accounted on an accrual basis in accordance with the terms of the related contracts.

XV. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

Provisions and contingent liabilities are accounted in accordance with, "Provisions, Contingent Liabilities and Contingent Assets Standard" ("TAS 37"). Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and a reliable estimate of the amount of the obligation can be made. When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Group, it is considered that a "contingent" liability exists and it is disclosed in the related notes to the financial statements. The Group recognized a full provision in its 31 December 2016 financials as part of its strategic actions in the scope of restructuring process. Details of these actions can be found in Part I Note II "Explanation About The Bank's Capital Structure, Shareholders of the Bank who are In Charge of the Management and/or Auditing of the Bank Directly Or Indirectly, Changes In These Matters (If Any) and The Group That The Bank Belongs To". The provision is classified under "Other Provisions" and recognized as an expense in income statement.

XVI. EXPLANATIONS ON 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 Group. Contingent assets are not recognised in financial statements since this may result in recognition of income that may never be realized. If an inflow of economic benefits to the Group has become probable, then the contingent asset is disclosed in the footnotes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the consolidated financial statements of the period in which the change occurs.

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XVII. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

Obligations related to employment termination and vacation rights are accounted for in accordance with "Employee Rights Standard" ("TAS 19") and are classified under "Reserve for Employee Rights" account in the balance sheet. Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The Group provides provision for retirement and termination liabilities by estimating the net present value of future payments of the Group arising from the retirement of employees and reflects this provision amount in the financial statements. For employee termination benefit provision calculation, future liability amounts are calculated and yearly discount rate is 3,93% (31 December 2015: 4,95%)

As of 31 December 2016, actuarial loss amounted to TL 25.676 (31 December 2015: TL 21.126 loss) is recognized under other income reserves in the financial statements.

All actuarial gains and losses are recognized under equity in accordance with revised TAS 19.

XVIII. EXPLANATIONS ON TAXATION

a. Current Tax:

According to the article no. 32 of "Corporate Tax Law" No. 5520 was published in the Official Gazette, No. 26205 dated 21 June 2006, the corporate tax rate is 20%. Corporate tax is calculated on the total income of the Group after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey or are resident corporations, are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related "Double Tax Treaty Agreements" are taken into account. An increase in capital via issuing bonus share is not considered as profit distribution and thus does not incur withholding tax.

The prepaid taxes are calculated and paid at the rates valid for the corporate tax rate of the related years. Advance tax paid by corporations which is for the current period can be credited against the annual corporation tax calculated on their annual corporate income in the following year. Companies file their tax returns until the 25th day of the fourth month after the closing of the accounting year to which they relate.

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

The tax applications for foreign branches;

Turkish Republic of Northern Cyprus ("TRNC")

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their balance sheets, income statements and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next seventeen days following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal instalments in May and October.

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XVIII. EXPLANATIONS ON TAXATION (Continued)

b. Deferred Tax Asset/Liability:

The Group calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Income Taxes Standard" ("TAS 12") and the related decrees of the BRSA concerning income taxes. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized. Deferred tax assets and liabilities are presented as net in the financial statements in accordance with TAS 12.

Based on its best projections and budget and within the framework of TAS 12's relevant procedures, the Parent Bank has limited its deferred tax assets with its deferred tax liabilities. The Parent Bank has recognized deferred tax receivables amounting to TL 151.679 as an expense; TL 77.627 in 2015, and TL 74.052 as of 31 December 2016. Aforementioned assessment will be reevaluated and reperformed on every following reporting date.

Various operations and calculations with unascertained effects on final tax amount occur during standard workflow, which require important judgement in determining income tax provision. Parent Bank records tax liabilities caused by projections of additional taxes to be paid as a result of tax related incidents. In cases which final tax results based on these incidents differ from initially recorded amounts, differences may effect income tax and deferred tax assets of the period they are recognized.

c. Transfer Pricing:

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of "disguised profit distribution" by way of transfer pricing. "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" published at 18 November 2007, explains the application related issues on this topic. According to this communiqué, the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm's length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes. As stated in the "7.1 Annual Documentation" section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices. Group has filled out the related form and presented it to the tax office.

XIX. EXPLANATIONS ON BORROWINGS

The funds borrowed are recorded at their costs and discounted by using the effective interest rate method. In the consolidated financial statements enclosed, foreign currency borrowings are translated according to the Parent Bank's period end counter buying exchange rate. Interest expenses of the current period regarding the borrowing amounts are recognised in the consolidated financial statements. As of 31 December 2016 and 31 December 2015, the Group has no marketable securities issued and convertible bonds.

XX. EXPLANATIONS ON ISSUANCE OF SHARE CERTIFICATES

As of 31 December 2016 and 31 December 2015, the Group has no issued share certificates.

XXI. EXPLANATIONS ON AVALIZED DRAFTS AND ACCEPTANCES

Availed drafts and acceptances are realized simultaneously with the customer payments and recorded in off-balance sheet accounts, if any.

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XXII. EXPLANATIONS ON GOVERNMENT INCENTIVES

As of 31 December 2016 and 31 December 2015, the Group has no government incentives.

XXIII. EXPLANATIONS ON OPERATING SEGMENTS

Segment reporting is presented in Note XII of Section Four.

XXIV. PROFIT RESERVES AND PROFIT DISTRIBUTION

Retained earnings as per the statutory consolidated financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code (“TCC”) the legal reserves are composed of first and second reserves. The TCC requires first reserves to be 5% of the profit until the total reserves is equal to 20% of issued and fully paid-in share capital. Second reserves are required to be 10% of all cash profit distributions that are in excess of 5% of the issued and fully paid-in share capital. However holding companies are exempt from this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

XXV. EARNINGS/LOSS PER SHARE

Loss per share disclosed in the income statement are calculated by dividing net loss for the year to the number of shares.

	Current Period 31 December 2016	Prior Period 31 December 2015
Net (Loss) / Profit for the Period	(354.677)	(325.071)
Number of Shares	65.229.000.000	65.229.000.000
(Loss) / Earnings per Share (*)	(0,005437)	(0,004984)

(*) Amounts are expressed in full TL.

XXVI. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement cash includes cash on hand, cash in transit, purchased bank cheques and demand deposits including balances with the Central Bank; and cash equivalents include interbank money market placements, reserve deposit average accounts, time deposits at banks with original maturity periods of less than three months.

XXVII. RELATED PARTIES

Parties stated in the article 49 of the Banking Law No. 5411, Bank’s senior management, and board members are deemed as related parties. Transactions with related parties are presented in Note VII of Section Five.

XXVIII. RECLASSIFICATIONS

There are no adjustments to the prior year consolidated financial statements other than reclassifications which have been made on comparative figures, to conform to changes in presentation in the 31 December 2016 and 31 December 2015 financials.

XXIX. OTHER MATTERS

None.

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SECTION FOUR

EXPLANATIONS RELATED TO FINANCIAL STRUCTURE AND RISK MANAGEMENT

I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

Equity and Capital Adequacy Standard Ratio is calculated in accordance with "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", and "Communiqué on Equities of Banks". As of 31 December 2016, equity of the Group and the Parent Bank is amounting to TL 4.305.490 and TL 4.246.289 respectively, and capital adequacy ratio of the Group and the Parent Bank is 20,58% and 20,38% respectively. Calculations for 31 December 2015 has been in accordance with former regulations, thus equity was amounting to TL 4.519.699 and TL 4.463.084, and the capital adequacy ratio was 15,89% and 15,72%. Capital adequacy ratio of the Bank is higher than the minimum rate required by the related regulatio

a. Information about shareholders' equity items:

	Current Period 31 December 2016	Amount as per the regulation before 1.1.2014 (*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	652.290	
Share Premium	-	
Reserves	1.707.613	
Other Comprehensive Income according to TAS	-	
Profit	-	
Current Period Profit	-	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	2.359.903	
Deductions From Common Equity Tier I Capital		
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 (-)	27.993	
Leasehold Improvements on Operational Leases (-)	6.613	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	75.521	125.868
Net Deferred Tax Asset/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 I 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 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	
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 (-)	-	
Total Deductions from Common Equity Tier I Capital	110.127	
Total Common Equity Tier I Capital	2.249.776	

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I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS’ EQUITY (Continued)

	Current Period 31 December 2016
ADDITIONAL TIER I CAPITAL	
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)	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	
Direct and Indirect Investments of the Bank on its own Additional Tier I 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 Direct or Indirect 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 (-)	-
Items to be Deducted from Tier I Capital during the Transition Period	
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 Assessment of Capital Adequacy Ratios of Banks (-)	50.347
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 Assessment of Capital Adequacy Ratios of Banks (-)	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-
Total Deductions from Additional Tier I Capital	50.347
Total Additional Tier I Capital	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	2.199.429
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.905.804
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	210.568
Total Deductions from Tier II Capital	2.116.372
Deductions from Tier II Capital	
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 Common Equity 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 (-)	214
Total Deductions from Tier II Capital	214
Total Tier II Capital	2.116.158
Total Equity (Total Tier I and Tier II Capital)	4.315.587
Amounts Deducted from Equity	
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	5
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 (-)	146
Other items to be Defined by the BRSA (-)	9.946
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period	
The Portion of 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 not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of 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 not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
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, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-

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I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS’ EQUITY
(Continued)

	Current Period 31 December 2016	Amount as per the regulation before 1.1.2014 (*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	4.305.490	
Total Risk Weighted Assets	20.918.968	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	10,75%	
Tier I Capital Ratio (%)	10,51%	
Capital Adequacy Ratio (%)	20,58%	
BUFFERS		
Bank-specific total CET1 Capital Ratio	0,63%	
Capital Conservation Buffer Ratio (%)	0,63%	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	-	
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	5,64%	
Amounts Lower Than Excesses as per Deduction Rules		
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	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	412.254	
General Loan Provisions for Exposures in Standard Approach Limited by 1,25% of Risk Weighted Assets	210.568	
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	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)		
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	-	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	

(*) Amounts to be recognized under transition regulations.

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I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS’ EQUITY (Continued)

	Prior Period 31 December 2015 (*)
TIER I CAPITAL	652.290
Paid-in Capital to be Entitled for Compensation after All Creditors	-
Share Premium	-
Share Cancellation Profits	2.062.290
Legal Reserves	16.138
Other Comprehensive Income according to TAS	-
Profit	-
Net Current Period Profit	-
Prior Period Profit	-
Provisions for Possible Losses	-
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period’s Profit	2.730.718
Tier I Capital Before Deductions	
Deductions From Tier I Capital	21.126
Current and Prior Periods’ Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	15.148
Leasehold Improvements on Operational Leases (-)	32.098
Goodwill and Intangible Assets and Related Deferred Tax Liabilities (-)	-
Net Deferred tax assets / liabilities (-)	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-
Investments in own common equity (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank does not own 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 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-
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 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-
Mortgage Servicing Rights not deducted (-)	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-
Other items to be Defined by the BRSA (-)	-
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deduction (-)	68.372
Total regulatory adjustments to Tier I capital	2.662.346
Tier I capital	
ADDITIONAL CORE CAPITAL	-
Preferred Stock not Included in Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014)	-
Additional Core Capital before Deductions	-
Deductions from Additional Core Capital	-
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 Direct or Indirect 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 (-)	-
Deductions from Additional Core Capital in cases where there are no adequate Tier II Capital (-)	-
Total Deductions from Additional Core Capital	-
Total Additional Core Capital	-

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I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS’ EQUITY (Continued)

	Prior Period 31 December 2015 (*)
Deductions from Core Capital	
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 Assessment of Capital Adequacy Ratios of Banks (-)	-
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 Assessment of Capital Adequacy Ratios of Banks (-)	-
Total Core Capital	2.662.346
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued Or Obtained before 1.1.2014)	1.589.676
Pledged Assets of the Shareholders to be used for the Bank's Capital Increases	-
General Provisions	297.991
Tier II Capital before Deductions	1.887.667
Deductions from Tier II Capital	
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 BRSA (-)	24.746
Total Deductions from Tier II Capital	24.746
Total Tier II Capital	1.862.921
CAPITAL	4.525.267
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	249
Net Book Values of Movables and Immovable 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 (-)	141
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 Assessment of Capital Adequacy Ratios of Banks (-)	5.178
Other items to be Defined by the BRSA (-)	-
The Portion of 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 not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of 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 not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
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, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
EQUITY	4.519.699
Amounts lower than Excesses as per Deduction Rules	
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 Tier I Capital	-
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	-

(*) Total capital has been calculated in accordance with the “Regulations regarding to changes on Regulation on Equity of Banks” effective from date 31 March 2016, the information given in the prior period column has been calculated pursuant to former regulation.

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I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

b. Items included in capital calculation:

None.

c. Approaches for assessment of adequacy of internal capital requirements for current and future activities:

The "HSBC Bank's assessment process of adequacy of internal capital requirements and capital adequacy policies" was prepared in order to describe the assessment process of adequacy of internal capital requirements and capital adequacy policies, and approved by its board of directors in 26 September 2012. The ultimate aim of this internal capital requirements process is to maintain the continuity of capital adequacy under the Parent Bank's strategies, business plan, and scope or in case of changes in developed assumption and methodology, the assessment methodology of internal capital requirements is a developing process, accordingly the future improvement areas are determined and the working plans are set.

With this evaluation process, on a prospective basis ensuring the continuity of the legal minimum limits of capital, keeping capital adequately to support the Parent Bank's targeted risk profile and ensuring the maintenance of capital adequately as well as the process of compliance with laws and regulations.

d. Explanations on reconciliation of capital items with balance sheet amounts:

The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provision. In the calculation of Total Capital, general provision up to 1,25% credit risk is taken into consideration as Tier II Capital. Besides, losses that are subject to deductions from Common Equity Tier I and reflected to Equity in line with the TAS, are determined by excluding the losses related to cash flow hedge transactions. On the other hand, in the calculation of the Total Capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and related deferred tax liabilities, net book value of immovables that are acquired against overdue receivables and retained more than five years, other items defined by the regulator are taken into consideration as amounts deducted from Share Capital.

II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK

a. In terms of credit risks, subjecting borrower or a group of borrowers or geographic region and sectors to a risk limitation, the segmentation structure of the risk limits and determining the risk limit ranges;

In credit risk, there are no specific limitations for a specific geographical region. However, if there will be a risk which is affecting a specific region then the necessary limitation shall be applied and the necessary action shall be taken in order to revaluation of the risk. Risk monitoring and sectoral based customer group limitations are conducted. The limitations which are determined for a specific risk group are determined in accordance with Banking Regulation and other relevant regulations. Loan usages are monitored instantly by the system. The credits depending on a risk group are also evaluated in the consolidated financial tables. Loan proposal are considered once in a year, however, for the non performing loans are considered in every 3 or 6 months.

Determining daily risk limits and allocating risks regarding the transactions conducted, customer's and bank's treasury department staff based monitoring on daily risk concentrations of off-balance risks:

According to HSBC Group standards, in all banking transactions approval and control mechanisms and systematical limit and risk control mechanisms are available. In assigning loan limits, extending credit, derivative and other future delivery derivative transactions are conducted depending to management's authorization, approval and control processes. Customer's and bank's treasury department staff based monitoring is conducted on determining daily risk limits and risk allocations with risk concentrations regarding the balance sheet and off-balance transactions conducted. Product based risk parameters are considered when allocating limits for the derivative products.

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

When evaluated together with the financial operations of other financial institutions as an active participant in international banking market and when it is considered that a significant portion of the loan portfolio of the Parent Bank consists of retail loans, it is thought that there is no significant level of loan risk concentration.

Monitoring loan valuableness of the debtors of loan and other receivables at regular intervals in accordance with the relevant legislation, if the financial tables which are obtained for opened credits are audited in accordance with the relevant legislation or not, and if not the reasons of not auditing, changing the limits of loans, guarantees of the loans and other receivables;

Loan allocation decision is made by Credit Committee only if deemed reasonable. This decision is made according to the audited financial tables of the customer's. Cash or non-cash loans can be extended to the customers.

Loan value of receivables from loans and other receivables are regularly traced in accordance with the relevant legislation, if necessary, actions such as limit increasing and decreasing, and strengthening the guarantee structure can be taken. The obtained financial tables regarding the credit requests should be audited in accordance with the relevant legislation.

The Parent Bank's management has generated a customer degree (rating) system in order to determine loan value and the rate of risks of the corporate and personal loan customers which are subject to corporate.

Corporate and Commercial Loan Portfolio Rating System:

Customer Risk Rating System (CRR Rating) shows the probabilities of the non performing loans of the loan borrowers. CRR rating is a summarized risk indicator which indicates the loan borrower's financial situation, industry and past operations, management's skills and other information including the cash flow, profitability and debt situation.

Regardless of guarantees and limits of the companies, CRR rating evaluates the risks objectively and independently and indicates the customer risk profiles in all aspects. The responsibility of the compliance of the CRR rate given belongs to the staff who approved the last control. The reviews over the CRR rates given are conducted at least once in a year and at each credit application reviews. Also in necessary cases the units which approve loans can reassess the CRR rates and indicate necessary changes.

10 basic customer risk rating ranges are as follows:

CRR 1.0 - Minimal Risk - Firm's financial situation (equity capital, income, cash generating capacity and management functions) is perfect. CRR 1.0 rate indicates the best credit risk available and there is almost no risk that the firm may be unable to meet its obligations.

CRR 2.0 - Low Risk - Firm's financial situation (equity capital, income, cash generating capacity and management functions) is very good.

CRR 3.0 - Acceptable Risk - Firm's financial situation (equity capital, income, cash generating capacity and management functions) is satisfactory in every respect and there are no adverse events.

CRR 4.0 - Reasonable Risk - Firm's financial situation (equity capital, income, cash generating capacity and management functions) is durable. The risk of the firm's inability to meet its obligations is at a reasonable level and more frequent surveillance is needed.

CRR 5.0 - Moderate Risk - Firm's financial situation (equity capital, income, cash generating capacity and management functions) is at an average level. Current situation is not ominous. However, firm's sensitivity to external events is needed to be observed more frequently and enhancing the firm's risk of inability to meet the obligations.

CRR 6.0 - Significant Risk - There is a known downtrend in the firm's financial situation (equity capital, income, cash generating capacity and management functions) and there are one or more problematic issues. Although, the current capacity of the firm is sufficient to meet its obligations, some potential risks may give harm to firm's financial situation. More frequent surveillance is needed. In normal situations, credit ratings made as CRR 6.0 are temporary and expected to change in maximum 18 months. Cash collateral credits can be given as an example of exception.

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

CRR 7.0 - High Risk - There is a continuous downtrend in the firm’s financial situation (equity capital, income, cash generating capacity and management functions) and this situation is needed to be continuously observed and assessed. Although the firm is disquieting regarding the ability of meeting its obligations, it is thought that the firm has sufficient capacity to meet its obligations.

CRR 8.0 - The Risk Requiring Special Management - The financial situation (equity capital, income, cash generating capacity and management functions) of the firm is generally weakened (for instance: negative equity capital, inability of making salary payments and etc.) or payment capacity and intention has become suspicious. This situation is requiring continuous surveillance and assessment. Concerns regarding the firm’s ability of meeting its obligations are growing and the possibilities of the firm’s ability to meet its obligations are decreasing.

CRR 9.0 - Suspicious - The possibility of collecting the full amount of principal and proceeds is very low. Provisions must be reserved. At least one of the situations below may be eventuated:

- Debtor, is late more than 90 days to meet its obligations to the Bank.
- Achieving no results from debt restructuring approaches.
- Restructured debt lapsed into default again.
- Legal proceedings have begun.
- In some cases that risk is evaluated to be in restructuring, provisions may not be booked for related risks even the risks are in the scope of CRR 9.0 classification.

CRR 10.0 - Loss - Collection is not expected.

Total amount of risks after offsetting transactions and average amount of risks allocated to different risk classes and types for relevant period without considering effects of credit risk mitigation:

Risk Classifications	Current Period Risk Amount	Average Risk Amount(*)
Conditional and unconditional exposures to central governments or central banks	3.178.373	5.301.627
Conditional and unconditional exposures to regional governments or local authorities	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	60	50
Conditional and unconditional exposures to multilateral development banks	-	-
Conditional and unconditional exposures to international organisations	-	-
Conditional and unconditional exposures to banks and brokerage houses	3.319.731	3.238.789
Conditional and unconditional exposures to corporates	9.014.374	11.579.347
Conditional and unconditional retail exposures	5.269.793	6.020.500
Conditional and unconditional exposures secured by real estate property	1.039.914	1.216.491
Past due receivables	468.817	501.331
Receivables defined in high risk category by BRSA	-	332.738
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	-	-
Stock Investments	-	-
Other receivables	436.586	547.658
Total	22.727.648	28.738.531

(*) The average risk amount is determined by taking the arithmetic mean of values in the month-end reports.

b. Control limits on position of the Parent Bank’s forward transactions and option agreements and other similar instruments, manageability of credit risk for these kind of instruments and the potential risks arising from the market movements;

The loan risks undertaken for the forward transactions, option agreements and similar instruments are monitored with considering the potential risks arising from the market movements and risk limit control is conducted from current market prices constantly.

c. When the Bank is significantly subject to the loan risk, in order to reduce the total risks, the Bank terminates the forward transactions, option and similar agreements in a short time period through using, fulfilling the acts or selling;

During the management of the balance sheet, interest and liquidity risks, the Parent’s Bank constantly uses derivatives and its resources in the international financial markets within the limits allocated in order to reduce and control risks. When necessary portfolio based loan risks could be reduced with loan derivatives and suchlike instruments.

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

d. Risk weight subject to non-cash loans turned into cash loans;

As of 31 December 2016, the Parent Bank has TL 36 (31 December 2015: TL 79) of non-cash loans turned into cash loans.

The liquidated non-cash loans are subject to the same risk weight with the overdue loans.

Allocation of the non-cash loans turned into cash loans are presented in the table below:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Letters of Guarantee	-	-	-	-
Prefinancing Loans	-	-	-	-
Commercial Letter of Credit Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Bad Check Payments	36	-	79	-
Other Liabilities	-	-	-	-
Total	36	-	79	-

Information on whether the loans that are renewed and rescheduled are included in a new rating group as determined by the Bank’s risk management system, other than the follow-up plan defined in the banking regulations or not; whether new precautions are considered in these methods or not; whether the Bank’s risk management accepts long term commitments as having more risk than short term commitments which results in a diversification of risk or not;

All loans are evaluated considering the credit rating of the client. Loans that are bound to a redemption plan are followed in a separate category as closely followed risky loans. Risk levels of the loans bound to a redemption plan are updated according to the rating system of the Parent Bank. In the firms whose risk level increases, certain actions are taken with regard to risk management, such as risk is registered as liquidation, guarantee is improved or limits are decreased.

e. Evaluation of the significance of country specific risk if the banks have foreign operations and credit transactions in a few countries or these operations are coordinated with a few financial entities;

Since the Parent Bank carries out its foreign banking transactions and credit facilities through a widespread correspondent network and HSBC Group banks by revising and following the credit ratings of OECD countries and relevant institutions, country risks, market conditions, it is thought that there is no significant risk element.

Evaluation of the Bank’s competitive credit risk as being an active participant in the international banking transactions market;

When evaluated together with the financial operations of other financial institutions as an active participant in international banking market and when it is considered that a significant portion of the loan portfolio of the Bank consists of retail loans, it is thought that there is no significant level of loan risk concentration.

f. The proportion of the Group’s top 100 and 200 cash loan balances in total cash loans: 44% and 53% (31 December 2015: 31% and 40%).

The proportion of the Group’s top 100 and 200 non-cash loan balances in total non-cash loans: 94% and 98% (31 December 2015: 89% and 96%).

The proportion of the Group’s cash and non-cash loan balances with the first 100 and 200 customers comprises of total cash loans and non-cash loans: 45% and 56% (31 December 2015: 33% and 43%).

g. General loan loss provision booked by the Parent Bank: TL 412.254 (31 December 2015: TL 457.075).

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

h. Profile on significant risks in significant regions, Risk Profile according to sectors and counterparties and Term distribution of risks with term structure:

Current Period 31 December 2016	Risk Categories (***)																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Total
Domestic	3.031.240	-	60	-	-	936.179	8.883.130	5.249.742	1.027.588	463.919	-	-	-	-	-	-	436.316	20.028.174
European Union Countries	-	-	-	-	-	1.241.263	102.742	5.769	7.231	40	-	-	-	-	-	-	-	1.357.045
OECD Countries (*)	-	-	-	-	-	57.296	-	36	326	-	-	-	-	-	-	-	-	57.658
Off – shore Countries	-	-	-	-	-	334	-	-	-	-	-	-	-	-	-	-	-	334
USA, Canada	-	-	-	-	-	679.858	20.100	556	761	-	-	-	-	-	-	-	-	701.275
Other Countries	147.133	-	-	-	-	404.801	8.402	13.690	4.008	4.858	-	-	-	-	-	-	-	582.892
Subsidiaries and Joint Venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	270	270
Undistributed Assets / Liabilities (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	3.178.373	-	60	-	-	3.319.731	9.014.374	5.269.793	1.039.914	468.817	-	-	-	-	-	-	436.586	22.727.648

(*) OECD countries other than EU countries, USA and Canada.

(**) Assets and liabilities that are not distributed according to a consistent principle

(***) Risk categories that are defined in "Communiqué on Measurement and Assessment of Capital Adequacy of Banks".

1. Conditional and unconditional exposures to central governments or central banks
2. Conditional and unconditional exposures to regional governments or local authorities
3. Conditional and unconditional receivables from administrative units and non-commercial enterprises
4. Conditional and unconditional exposures to multilateral development banks
5. Conditional and unconditional exposures to international organisations
6. Conditional and unconditional exposures to banks and brokerage houses
7. Conditional and unconditional exposures to corporates
8. Conditional and unconditional retail exposures
9. Conditional and unconditional exposures secured by real estate property
10. Past due receivables
11. Receivables defined in high risk category by BRSA
12. Exposures in the form of bonds secured by mortgages
13. Securitization Positions
14. Short term exposures to banks, brokerage houses and corporates
15. Exposures in the form of collective investment undertakings
16. Stock Investment
17. Other receivables

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

Prior Period	Risk Categories (***)																Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
31 December 2015																	
Domestic	4.046.788	-	-	-	-	1.034.400	12.765.896	6.165.128	1.499.185	477.463	2.185.108	-	-	-	-	641.226	28.815.194
European Union Countries	-	-	-	-	-	215.438	109.011	5.771	7.413	62	132	-	-	-	-	-	337.827
OECD Countries (*)	-	-	-	-	-	129.217	-	107	493	-	78	-	-	-	-	-	129.895
Off – shore Countries	-	-	-	-	-	2.005	-	-	-	-	-	-	-	-	-	-	2.005
USA, Canada	-	-	-	-	-	11.433	16.835	668	1.200	1	53	-	-	-	-	-	30.190
Other Countries	147.163	-	-	-	-	271.746	76.849	26.490	6.893	3.992	583	-	-	-	-	-	533.716
Subsidiaries and Joint Venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	270	270
Undistributed Assets / Liabilities (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	4.193.951	-	-	-	-	1.664.239	12.968.591	6.198.164	1.515.184	481.518	2.185.954	-	-	-	-	641.496	29.849.097

(*) OECD countries other than EU countries, USA and Canada.

(**) Assets and liabilities that are not distributed according to a consistent principle

(***) Risk categories that are defined in "Communiqué on Measurement and Assessment of Capital Adequacy of Banks".

- 1 Conditional and unconditional exposures to central governments or central banks
- 2 Conditional and unconditional exposures to regional governments or local authorities
- 3 Conditional and unconditional receivables from administrative units and non-commercial enterprises
- 4 Conditional and unconditional exposures to multilateral development banks
- 5 Conditional and unconditional exposures to international organisations
- 6 Conditional and unconditional exposures to banks and brokerage houses
- 7 Conditional and unconditional exposures to corporates
- 8 Conditional and unconditional retail exposures
- 9 Conditional and unconditional exposures secured by real estate property
- 10 Past due receivables
- 11 Receivables defined in high risk category by BRSA
- 12 Exposures in the form of bonds secured by mortgages
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- 16 Other receivables

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

i. Risk Profile According to Sectors and Counterparties:

Current Period 31 December 2016 Sectors/Counterparties	Risk Categories (*)																	TL	FC	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17			
Agricultural	-	-	-	-	-	-	33.530	1.323	48	2.273	-	-	-	-	-	-	-	17.003	20.171	37.174
Farming and raising livestock	-	-	-	-	-	-	17.432	319	-	2.146	-	-	-	-	-	-	-	15.652	4.245	19.897
Forestry	-	-	-	-	-	-	2.751	913	48	106	-	-	-	-	-	-	-	1.173	2.645	3.818
Fishing	-	-	-	-	-	-	13.347	91	-	21	-	-	-	-	-	-	-	178	13.281	13.459
Industry	-	-	-	-	-	40.116	4.757.144	125.659	100.523	114.655	-	-	-	-	-	-	436.316	2.532.322	3.042.091	5.574.413
Mining	-	-	-	-	-	-	21.458	1.441	2.293	5.075	-	-	-	-	-	-	-	7.046	23.221	30.267
Production	-	-	-	-	-	40.116	4.455.151	122.712	98.230	109.518	-	-	-	-	-	-	436.316	2.446.787	2.815.256	5.262.043
Electricity, Gas, Water	-	-	-	-	-	-	280.535	1.506	-	62	-	-	-	-	-	-	-	78.489	203.614	282.103
Construction	-	-	-	-	-	-	1.051.397	9.782	215.222	17.156	-	-	-	-	-	-	-	95.478	1.198.079	1.293.557
Services	-	-	45	-	-	-	3.136.698	68.674	55.584	59.017	-	-	-	-	-	-	270	3.466.941	6.311.223	9.778.164
Wholesale and retail trade	-	-	-	-	-	-	1.326.301	39.879	51.222	48.561	-	-	-	-	-	-	-	703.477	762.486	1.465.963
Hotel and beverage service	-	-	-	-	-	-	28.286	3.742	137	3.229	-	-	-	-	-	-	-	8.723	26.671	35.394
Transportation and	-	-	-	-	-	-	894.350	6.898	2.669	4.872	-	-	-	-	-	-	-	121.165	787.624	908.789
Financial Institutions	-	-	-	-	-	-	21.670	579	-	2	-	-	-	-	-	-	270	2.253.642	4.226.755	6.480.397
Real estate and lending service	-	-	-	-	-	-	5.407	339	-	-	-	-	-	-	-	-	-	494	5.252	5.746
Self employment service	-	-	45	-	-	-	708.855	12.294	477	387	-	-	-	-	-	-	-	283.744	438.314	722.058
Education Service	-	-	-	-	-	-	229	321	-	3	-	-	-	-	-	-	-	553	-	553
Health and financial service	-	-	-	-	-	-	151.600	4.622	1.079	1.963	-	-	-	-	-	-	-	95.143	64.121	159.264
Other	-	-	15	-	-	112	35.605	5.064.355	668.537	275.716	-	-	-	-	-	-	-	5.639.855	404.485	6.044.340
TOTAL	3.178.373	-	60	-	-	3.319.731	9.014.374	5.269.793	1.039.914	468.817	-	-	-	-	-	-	436.586	11.751.599	10.976.049	22.727.648

(*) Risk categories that are defined in "Communiqué on Measurement and Assessment of Capital Adequacy of Banks.

- 1 Conditional and unconditional exposures to central governments or central banks
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- 5 Conditional and unconditional exposures to international organisations
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- 7 Conditional and unconditional exposures to corporates
- 8 Conditional and unconditional retail exposures
- 9 Conditional and unconditional exposures secured by real estate property
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- 17 Other Receivables

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

Prior Period 31 December 2015 Sectors/Counterparties	Risk Categories (*)																TL	FC	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16			
Agricultural	-	-	-	-	-	-	145.105	9.407	856	2.401	-	-	-	-	-	-	59.486	98.283	157.769
Farming and raising livestock	-	-	-	-	-	-	82.680	6.919	603	2.144	-	-	-	-	-	-	53.419	38.927	92.346
Forestry	-	-	-	-	-	-	33.963	1.943	253	257	-	-	-	-	-	-	5.803	30.613	36.416
Fishing	-	-	-	-	-	-	28.462	545	-	-	-	-	-	-	-	-	264	28.743	29.007
Industry	-	-	-	-	-	-	7.475.046	333.656	225.992	121.160	2.715	-	-	-	-	-	3.327.118	4.831.451	8.158.569
Mining	-	-	-	-	-	-	105.743	12.322	5.764	317	-	-	-	-	-	-	19.463	104.683	124.146
Production	-	-	-	-	-	-	7.225.233	319.074	220.184	120.769	2.711	-	-	-	-	-	3.282.943	4.605.028	7.887.971
Electricity, Gas, Water	-	-	-	-	-	-	144.070	2.260	44	74	4	-	-	-	-	-	24.712	121.740	146.452
Construction	-	-	-	-	-	-	809.449	19.394	126.041	7.442	2.880	-	-	-	-	-	132.536	832.670	965.206
Services	4.193.951	-	-	-	-	1.664.239	4.313.585	185.867	245.001	29.236	7.509	-	-	-	-	-	2.849.735	7.789.653	10.639.388
Wholesale and retail trade	-	-	-	-	-	-	2.014.588	117.736	74.045	23.288	5.461	-	-	-	-	-	1.040.282	1.194.836	2.235.118
Hotel and beverage service	-	-	-	-	-	-	410.643	7.016	14.178	860	77	-	-	-	-	-	21.835	410.939	432.774
Transportation and telecommunication	-	-	-	-	-	-	809.675	22.801	12.944	2.150	1.927	-	-	-	-	-	116.050	733.447	849.497
Financial Institutions	4.193.951	-	-	-	-	1.664.239	132.279	305	100.612	2	8	-	-	-	-	-	1.523.736	4.567.660	6.091.396
Real estate and lending service	-	-	-	-	-	-	2.485	127	5.321	8	-	-	-	-	-	-	1.466	6.475	7.941
Self employment service	-	-	-	-	-	-	788.288	25.268	35.354	2.281	30	-	-	-	-	-	57.523	793.698	851.221
Education Service	-	-	-	-	-	-	394	698	282	52	-	-	-	-	-	-	1.063	363	1.426
Health and financial service	-	-	-	-	-	-	155.233	11.916	2.265	595	6	-	-	-	-	-	87.780	82.235	170.015
Other	-	-	-	-	-	-	225.406	5.649.840	917.294	321.279	2.172.850	-	-	-	-	-	641.496	9.175.226	752.939
TOTAL	4.193.951	-	-	-	-	1.664.239	12.968.591	6.198.164	1.515.184	481.518	2.185.954	-	-	-	-	641.496	15.544.101	14.304.996	29.849.097

(*) Risk categories that are defined in "Communiqué on Measurement and Assessment of Capital Adequacy of Banks.

- 1 Conditional and unconditional exposures to central governments or central banks
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- 4 Conditional and unconditional exposures to multilateral development banks
- 5 Conditional and unconditional exposures to international organisations
- 6 Conditional and unconditional exposures to banks and brokerage houses
- 7 Conditional and unconditional exposures to corporates
- 8 Conditional and unconditional retail exposures
- 9 Conditional and unconditional exposures secured by real estate property
- 10 Past due receivables
- 11 Receivables defined in high risk category by BRSA
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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

j. Term distribution of risks with term structure:

Risk Categories	Time to Maturity					Unallocated
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	
Conditional and unconditional exposures to central governments or central banks	1.921.225	320.363	150.899	246.233	539.653	-
Conditional and unconditional exposures to regional governments or local authorities	-	-	-	-	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	60	-	-	-	-	-
Conditional and unconditional exposures to multilateral development banks	-	-	-	-	-	-
Conditional and unconditional exposures to international organisations	-	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	1.408.071	427.412	440.832	258.907	784.509	-
Conditional and unconditional exposures to corporates	1.356.690	1.486.070	808.369	1.402.242	3.961.003	-
Conditional and unconditional retail exposures	99.418	102.686	103.380	301.127	4.663.182	-
Conditional and unconditional exposures secured by real estate property	8.630	8.797	21.530	76.897	924.060	-
Past due receivables	-	-	-	-	-	468.817
Receivables defined in high risk category by BRSA	-	-	-	-	-	-
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	-	-	-	-	-	-
Stock Investment	-	-	-	-	-	-
Other receivables	405.904	-	-	-	30.682	-
TOTAL	5.199.998	2.345.328	1.525.010	2.285.406	10.903.089	468.817

k. Explanations regarding risk categories mentioned in 6th clause of Capital Adequacy Measurement and Evaluation Communiqué:

An international rating firm, Moody’ s Ratings’ external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks". Additionally, grades of Moody’ s Ratings International Rating Agency were used for receivables from central government and central bank of our country and counter parties at abroad. Counter parties resident are accepted as “gradeless” and take risk weight suited for “gradeless” category in relevant risk class.

Rating Scores;

1. Receivables from Central Governments or Central Banks
2. Receivables from Banks and Brokerage Houses

are used in risk classes.

While credit quality level grade given by Moody’s Ratings International Rating Agency decreases to 3, grades using in risk class of receivables from banks and intermediary institutions matched with all credit quality levels from 1 to 6 in risk classes of Receivables from Central Governments or Central Banks, Receivables from regional governments or local authorities and receivables from administrative units and non-commercial enterprises.

For determination of risk weight regarding items that export or issuer rating not included to purchase/sale accounts is firstly considered to export rating, and also issuer’s credit rating is considered in the absence of export rating.

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

Credit Quality Degrees	Moody's Risk Rating	Risk Categories		
		Exposures to Central Governments or Central Banks	Exposures to Central Governments or Central Banks	
			Exposures with Remaining Maturities Less Than 3 Months	Exposures with Remaining Maturities More Than 3 Months
1	Aaa Aa1 Aa2 Aa3	0%	20%	20%
2	A1 A2 A3	20%	20%	50%
3	Baa1 Baa2 Baa3	50%	20%	50%
4	Ba1 Ba2 Ba3	100%	50%	100%
5	B1 B2 B3	100%	50%	100%
6	Caa1 Caa2 Caa3 Ca C	150%	150%	150%

l. Risk Amounts according to Risk Weight

31 December 2016	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	From Equity
1.Amount Before												
Credit Risk Mitigation	1.696.523	-	2.159.729	676.057	1.197.070	5.087.974	11.751.658	158.637	-	-	-	10.097
2.Amount After												
Credit Risk Mitigation	1.683.041	-	2.159.729	676.057	1.197.070	5.087.974	11.524.376	158.637	-	-	-	10.097

m. Definitions of the non-performing and impaired factors in accounting application:

According to the “Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves” published in the Official Gazette numbered 26333 dated 1 November 2006 which was amended with the communiqué published in the Official Gazette numbered 28906 dated 7 February 2014; Non-required delay time Loans that is not classified as Group III Loans, whose principal and interest payment collection delayed more than 30 days are considered as Non-Performing Loan in the Accounting Practice; group III, IV and V loans defined on the mentioned communiqué are considered as impaired receivables without considering refinancing or addition accrued interest and quasi-interest loading to principal.

The Parent Bank provides specific reserves to Group III, IV and V loans in accordance with “Communique on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves”

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

n. Sector or type of counterparty; separately impaired loans and amount of non-performing loans, value adjustments and provisions, amount of value adjustments and provisions during period:

Miscellaneous Information regarding Important Sectors or Counterparty Type:

	Credits			
	Impaired credits	Past due credits (*)	Value adjustments (**)	Provisions (***)
Agricultural	3.914	544	10	1.528
Farming and raising livestock	3.672	278	5	1.456
Forestry	207	172	3	59
Fishing	35	94	2	13
Industry	274.635	564.748	18.285	155.414
Mining	6.204	3.949	98	1.059
Production	267.773	559.758	18.167	153.790
Electricity, Gas, Water	658	1.041	20	565
Construction	21.316	43.918	1.221	3.985
Services	88.685	74.638	1.766	28.412
Wholesale and retail trade	69.224	29.848	623	19.567
Hotel and beverage service	4.521	4.987	131	1.215
Transportation and telecommunication	6.932	7.966	137	2.959
Financial Institutions	13	66	1	10
Real estate and lending service	2	22	-	2
Self employment service	2.758	17.078	395	2.071
Education Service	932	107	2	315
Health and financial service	4.303	14.564	477	2.273
Other	1.042.416	343.431	37.011	791.999
Total	1.430.966	1.027.279	58.293	981.338

(*) Close monitoring amounts.

(**) General provisions that are provided for non-performing loans.

(***) Specific provisions that are provided for decreased-in-value loans.

o. Reconciliation of changes in value adjustments and provisions for impaired loan (if possible on basis of geographic regions):

Current Period	Opening	Provisions provided	Provision	Other	Closing
31 December 2016	Balance	during the period	Reversals	Adjustments	Balance
Specific Provisions	786.002	543.005	347.669	-	981.338
General Provisions	457.075	-	44.821	-	412.254
Prior Period	Opening	Provisions provided	Provision	Other	Closing
31 December 2015	Balance	during the period	Reversals	Adjustments	Balance
Specific Provisions	763.007	586.955	563.960	-	786.002
General Provisions	362.405	94.670	-	-	457.075

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

p. The movement of specific provision of the Group's loan and other receivables:

	Commercial Loans	Consumer Loans	Credit Cards	Total
1 January 2016	186.734	234.380	364.888	786.002
Transferred during the period	102.329	179.435	261.241	543.005
Collection during the period	14.574	33.493	47.533	95.600
Write-off/sold	83.079	59.081	109.909	252.069
31 December 2016	191.410	321.241	468.687	981.338

	Commercial Loans	Consumer Loans	Credit Cards	Total
1 January 2015	154.346	197.165	411.496	763.007
Transferred during the period	80.110	193.020	313.825	586.955
Collection during the period	15.296	31.524	49.245	96.065
Write-off/sold	32.426	124.281	311.188	467.895
31 December 2015	186.734	234.380	364.888	786.002

r. Information on types of loans and provisions:

	Commercial Loans	Consumer Loans	Credit Cards	Total
Current Period - 31 December 2016				
Standard loans	8.033.394	2.431.147	2.692.420	13.156.961
Close monitoring loans	683.923	146.143	197.213	1.027.279
Non performing loans	386.288	442.523	602.155	1.430.966
The specific provision (-)	191.411	321.242	468.685	981.338
Total	8.912.194	2.698.571	3.023.103	14.633.868

	Commercial Loans	Consumer Loans	Credit Cards	Total
Prior Period- 31 December 2015				
Standard loans	12.686.708	3.958.777	3.103.135	19.748.620
Close monitoring loans	520.950	159.474	190.845	871.269
Non performing loans	348.272	383.963	512.850	1.245.085
The specific provision (-)	186.734	234.381	364.887	786.002
Total	13.369.196	4.267.833	3.441.943	21.078.972

s. Information on collaterals for non-performing loans of the Group:

	Current Period 31 December 2016 Collateral Value	Prior Period 31 December 2015 Collateral Value
Mortgages	562.311	484.578
Pledged Vehicle	5.418	6.039
Cheques and Notes	-	2.273
Cash	790	471
Total	568.519	493.361

III. EXPLANATIONS ON COUNTER CYCLICAL CAPITAL BUFFER RATIO CALCULATIONS

In accordance with BRSA decree dated 24 December 2015 effective from 1 January 2016, the counter-cyclical capital buffer ratio for banks in Turkey will be considered as 0%.

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IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK

- a. Exposed risk of foreign currency, estimations on the effects of this matter, limits for the daily followed positions determined by the Board of Directors:**

In foreign currency risk management, the Group, makes tiny distinctions and generally attentive to not taking long position when organizing the currency risk. In organizing foreign currency positions, the Parent Bank's acts in accordance with both the legal limitations and the limitations determined by the board of the directors.

- b. Hedge against foreign exchange debt instruments and net foreign exchange investments by hedging derivative instruments, if material:**

The Group, as a general principle does not carry any foreign currency position by hedging its foreign currency positions with derivative products. Foreign exchange bid rate of important foreign currencies are indicated in the table below

- c. Management policy for foreign currency risk:**

Policy of the foreign currency risk management is explained in the first article.

- d. Current foreign exchange bid rates of the Group for the last five business days prior to the financial statement date:**

The Parent Bank's foreign exchange bid rates for US Dollar, and Euro as of the reporting date and for the last five days prior to that date are presented below:

Current Period – 31 December 2016	USD (\$)	Euro (€)
Balance Sheet Date		
Parent Bank's Evaluation Rate	3,5263	3,7161
Before Balance Sheet Date		
30 December 2016		
29 December 2016	3,5263	3,7161
28 December 2016	3,5313	3,6926
27 December 2016	3,5435	3,6821
26 December 2016	3,5130	3,6702
Prior Period – 31 December 2015	USD (\$)	Euro (€)
Balance Sheet Date		
Parent Bank's Evaluation Rate	2,9190	3,1767
Before Balance Sheet Date		
30 December 2016	2,9159	3,1839
29 December 2016	2,9090	3,1797
28 December 2016	2,9209	3,1971
25 December 2016	2,9209	3,1971
24 December 2016	2,9209	3,1971

- e. The simple arithmetic average of the Group's foreign exchange bid rates for the last thirty days preceding the balance sheet date for major foreign currencies:**

As of December 2016, the Parent Bank's simple arithmetic average foreign exchange rate for USD is TL 3,5018 (December 2015: TL 2,9209) and exchange rate for Euro is TL 3,6881 (December 2015: TL 3,1842).

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IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (Continued)

f. Information related to Group’s Currency Risk:

Current Period – 31 December 2016	EURO	USD	Other FC	Total
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	309.863	947.849	331.471	1.589.183
Banks	32.259	812.659	32.909	877.827
Financial Assets at Fair Value through Profit or Loss (Net)	180.592	143.930	13.302	337.824
Interbank Money Market Placements	-	4.372.998	-	4.372.998
Financial Assets Available-for-Sale (Net)	2.435	-	-	2.435
Loans (*)	2.984.313	2.458.823	15.957	5.459.093
Investments in Associates, Subsidiaries and Joint Ventures (Business Partners)	-	-	-	-
Investments Held-to-Maturity (Net)	-	-	-	-
Hedging Derivative Financial Assets	-	-	-	-
Tangible Assets (Net)	-	-	-	-
Intangible Assets (Net)	-	-	-	-
Other Assets (**)	4.547	4.916	8.844	18.307
Total Assets	3.514.009	8.741.175	402.483	12.657.667
Liabilities				
Bank Deposits	-	10	-	10
Foreign Currency Deposits	2.707.336	5.382.578	1.050.298	9.140.212
Funds from Interbank Money Market	-	-	-	-
Funds Borrowed	465.827	3.643.718	2.787	4.112.332
Issued Marketable Securities (Net)	823	3.463	17	4.303
Miscellaneous Payables	-	-	-	-
Hedging Derivative Financial Liabilities	-	-	-	-
Other Liabilities	265.847	385.463	12.866	664.176
Total Liabilities	3.439.833	9.415.232	1.065.968	13.921.033
Net on Balance Sheet Position	74.176	(674.057)	(663.485)	(1.263.366)
Net Off-Balance Sheet Position	(173.984)	488.176	655.357	969.549
Financial Derivative Assets	5.470.827	7.841.499	1.067.640	14.379.966
Financial Derivative Liabilities	5.644.811	7.353.323	412.283	13.410.417
Non-cash Loans	714.430	996.878	110.504	1.821.812
Prior Period - 31 December 2015				
Total Assets	5.772.791	7.930.592	726.913	14.430.296
Total Liabilities	6.008.452	10.096.877	1.117.272	17.222.601
Net on-Balance Sheet Position	(235.661)	(2.166.285)	(390.359)	(2.792.305)
Net off-Balance Sheet Position	227.513	2.260.465	383.933	2.871.911
Financial Derivative Assets	7.141.977	14.868.200	1.212.471	23.222.648
Financial Derivative Liabilities	6.914.464	12.607.735	828.538	20.350.737
Non-cash Loans	616.048	1.603.840	46.505	2.266.393

(*) As of 31 December 2016, total loans amount consists foreign indexed loans amounting to TL 1.485.916 (31 December 2015: TL 2.544.252) and there is no foreign currency factoring receivables. (31 December 2015: TL 47.236).

(**) As of 31 December 2016, other assets do not consist of prepaid expenses amounting to TL 47 (31 December 2015: TL 650).

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IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (Continued)

As of 31 December 2016 and 31 December 2015 if Group's foreign currency position had depreciated by 10% against TL with all other variables held constant, the changes in profit before tax and equity mainly as a result of foreign exchange losses are disclosed as following:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	Income Statement	Equity (*)	Income Statement	Equity (*)
USD	(18.588)	(18.588)	9.418	9.418
Euro	(9.981)	(9.981)	(815)	(815)
Other	(813)	(813)	(642)	(642)
Total	(29.382)	(29.382)	7.961	7.961

(*) The effect of equity also includes the effect of income statement.

As of 31 December 2016 and 31 December 2015, as a result of 10% appreciation of TL currency against other foreign currencies with all other variables held constant, the changes in the assets and liabilities have occurred in accordance with the table above but effects will be reverse.

V. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK

There is a short term interest sensitivity gap at the balance sheet of the Bank due to a structural risk of the banking sector; obligation of funding of long-term assets with short-term deposits. Derivative financial instruments are used to mitigate possible interest rate risk of interest sensitive assets and liabilities. Interest rate futures and interest rate swap transactions are performed to reduce the balance sheet and off-balance sheet interest rate risk.

The Bank managed interest rate and prepayment risks of mortgages and other long-term loans with derivative financial instruments efficiently taking into consideration cost-benefit analysis and reduced the risk against to the fluctuations in global and local markets.

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items based on repricing dates:

Current Period – 31 December 2016	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years and Over	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	1.233.919	-	-	-	-	535.001	1.768.920
Banks	802.822	-	-	-	-	157.015	959.837
Financial Assets at Fair Value Through Profit or Loss (Net)	142.037	276.297	371.654	201.784	5.638	8.407	1.005.817
Interbank Money Market Placements	4.372.998	-	-	-	-	-	4.372.998
Financial Assets Available-for-Sale (Net)	-	320.306	397.132	530.243	8.788	8.002	1.264.471
Loans (*)	6.116.811	690.428	2.251.159	4.262.436	863.406	449.628	14.633.868
Investments Held-to-Maturity (Net)	-	-	-	-	-	-	-
Other Assets	41.045	28.409	-	2.136	-	332.409	403.999
Total Assets	12.709.632	1.315.440	3.019.945	4.996.599	877.832	1.490.462	24.409.910
Liabilities							
Bank Deposits	44.488	-	-	-	-	123.171	167.659
Other Deposits	10.486.157	1.174.485	190.529	256	-	3.102.986	14.954.413
Funds from Interbank Money Market	531.938	-	-	-	-	-	531.938
Miscellaneous Payables	-	-	-	-	-	344.213	344.213
Issued Marketable Securities (Net)	-	-	-	-	-	-	-
Funds Borrowed	2.514.000	1.593.155	3.516	211.121	-	3.171	4.324.963
Other Liabilities (**)	78.125	142.145	269.401	785.884	546	2.810.623	4.086.724
Total Liabilities	13.654.708	2.909.785	463.446	997.261	546	6.384.164	24.409.910
Balance Sheet Long Position	-	-	2.556.499	3.999.338	877.286	-	7.433.123
Balance Sheet Short Position	(945.076)	(1.594.345)	-	-	-	(4.893.702)	(7.433.123)
Off Balance Sheet Long Position	107.330	190.020	68.378	-	-	-	365.728
Off Balance Sheet Short Position	-	-	-	(9.500)	-	-	(9.500)
Total Position	(837.746)	(1.404.325)	2.624.877	3.989.838	877.286	(4.893.702)	356.228

(*) Loans consist of factoring transactions amounting to TL 476,308 (31 December 2015: TL 584,068).

(**) Shareholders' equity is presented under "Other Liabilities" item in "Non-Interest Bearing".

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V. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK (Continued)

Prior Period - 31 December 2015	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Non- Interest Bearing	Total
Assets							
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	2.420.133	-	-	-	-	974.341	3.394.474
Banks	358.792	-	-	-	-	156.856	515.648
Financial Assets at Fair Value Through Profit or Loss (Net)	261.321	705.071	373.753	289.708	37.232	5.182	1.672.267
Interbank Money Market Placements	3.879.540	-	-	-	-	-	3.879.540
Financial Assets Available-for-Sale (Net)	104	-	-	580.296	44.082	29.795	654.277
Loans (*)	8.000.651	1.562.106	4.112.510	5.949.772	994.850	459.083	21.078.972
Investments Held-to-Maturity (Net)	-	-	-	-	-	-	-
Other Assets	12.149	8.517	-	-	-	457.002	477.668
Total Assets	14.932.690	2.275.694	4.486.263	6.819.776	1.076.164	2.082.259	31.672.846
Liabilities							
Bank Deposits	19.521	-	-	-	-	58.240	77.761
Other Deposits	12.877.144	2.523.809	234.429	4.723	-	3.298.909	18.939.014
Funds from Interbank Money Market	790.709	-	-	-	-	-	790.709
Miscellaneous Payables	-	-	-	-	-	655.634	655.634
Issued Marketable Securities (Net)	-	-	-	-	-	-	-
Funds Borrowed	2.394.431	3.948.107	420.837	211.119	-	28.108	7.002.602
Other Liabilities (**)	84.971	82.214	146.491	650.498	1.583	3.241.369	4.207.126
Total Liabilities	16.166.776	6.554.130	801.757	866.340	1.583	7.282.260	31.672.846
Balance Sheet Long Position	-	-	3.684.506	5.953.436	1.074.581	-	10.712.523
		(4.278.436)					
Balance Sheet Short Position	(1.234.086)	-	-	-	-	(5.200.001)	(10.712.523)
Off Balance Sheet Long Position	53.325	304.916	167.559	96.363	-	-	622.163
Off Balance Sheet Short Position	-	-	-	-	(1.795)	-	(1.795)
		(3.973.520)					
Total Position	(1.180.761)	3.852.065	6.049.799	1.072.786	(5.200.001)		620.368

(*) Loans consist of factoring transactions amounting to TL 584.068.

(**) Shareholders' equity is presented under "Other Liabilities" item in "Non-Interest Bearing".

b. Effective average interest rates for monetary financial instruments:

Current Period – 31 December 2016	Euro	USD	Yen	TL
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	-	0,75	-	3,31
Banks	-	1,07	-	10,60
Financial Assets at Fair Value Through Profit or Loss (Net)	5,16	7,21	-	7,42
Interbank Money Market Placements	-	0,81	-	-
Financial Assets Available-for-Sale (Net)	-	-	-	9,29
Loans	3,93	4,47	-	15,04
Liabilities				
Bank Deposits	-	-	-	3,94
Other Deposits	1,45	1,67	1,40	9,50
Funds From Interbank Money Market	-	-	-	8,14
Funds Borrowed	4,50	4,10	-	16,40

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V. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK (Continued)

Prior Period – 31 December 2015	Euro	USD	Yen	TL
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	-	0,49	-	1,81
Banks	-	0,37	-	10,89
Financial Assets at Fair Value Through Profit or Interbank Money Market Placements	5,17	6,58	-	9,33
Financial Assets Available-for-Sale (Net)	0,03	0,38	-	10,74
Loans	-	-	-	9,15
	3,36	3,68	-	14,17
Liabilities				
Bank Deposits	-	-	-	6,48
Other Deposits	0,95	1,66	1,23	10,35
Funds From Interbank Money Market	-	-	-	7,50
Funds Borrowed	1,78	3,16	-	14,53

c. Interest rate risk on banking book:

- (i) **Nature of interest rate risk resulted from banking book, major assumptions including also assumption on early repayment of loans and movements in deposits other than term deposits and frequency of measuring interest rate risk**

The interest rate risk resulted from banking book is measured legally as per the “Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method” published in the Official Gazette no.28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

In addition to, interest rate gap analysis on asset and liability items that are sensitive interest rate that to be behavioural approach with internal method, net interest margin stress test and economic value of capital analysis are performed and evaluated at ALCO and Market Risk Committee. That internal methods, balance sheet items such as prepayment risk of mortgage risk, demand deposit that not contain specific maturity in terms of interest rate risk, credit cards, overdraft account and free capital are assessed process of behavioural approach and analyzed interest rate risk according to it.

Interest rate risk arising from banking book is managed with risk reduction according to determined internal limits and hedging transactions by Board of Directors.

- (ii) **Economic value differences resulted from interest rate instabilities calculated according to Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Parent Bank’s Banking Book as per Standard Shock Method**

31 December 2016	Shocks Applied (+/- x basis point)	Gains / Losses	Gains / Equity - Losses / Equity
Type of Currency			
1. TRY	500	(222.941)	(5,25)%
2. TRY	(400)	223.028	5,25%
3. EURO	200	(50.356)	(1,19)%
4. EURO	(200)	(4.681)	(0,11)%
5. USD	200	(55.985)	(1,32)%
6. USD	(200)	55.015	1,30%
Total (of negative shocks)		273.362	6,44%
Total (of positive shocks)		(329.282)	(7,75)%

31 December 2015	Shocks Applied (+/- x basis point)	Gains / Losses	Gains / Equity - Losses / Equity
Type of Currency			
1. TRY	500	(292.774)	(6,56)%
2. TRY	(400)	297.586	6,67%
3. EURO	200	(74.446)	(1,67)%
4. EURO	(200)	126	0,00%
5. USD	200	(76.106)	(1,71)%
6. USD	(200)	59.839	1,34%
Total (of negative shocks)		357.551	8,01%
Total (of positive shocks)		(443.326)	(9,94)%

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VI. EXPLANATIONS ON POSITION RISK OF EQUITY SECURITIES IN BANKING BOOK

a. Position risk of equity securities in banking book

(i) Comparison of carrying, fair and market values of equity shares

The Parent Bank’s equity securities which are not publicly traded are booked as their cost value, if calculation of fair value cannot be determined properly.

(ii) Realised gains/losses, unrealised gains/losses on revaluation surpluses from equity securities and amounts included in core and supplementary capitals

None.

VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK

Information about the liquidity risk management including factors such as risk capacity of the Parent Bank, responsibilities and the structure of liquidity risk management, reporting of the liquidity risk within the Bank and providing communication with Board of Directors and line of businesses in terms of liquidity risk strategy, policy and applications:

The Parent Bank has adopted principle of funding the liquidity and funding management of the Parent Bank with core funding instruments. Funds required must be available even under stressed conditions particular to the Bank and the Market

The Parent Bank’s short term liquidity is managed by the Balance Sheet Management associated Treasury function. The management of liquidity and funding risks of the banking portfolio is conducted by Assets and Liabilities and Capital Management Unit (ALCM) operating under Finance department, within the framework of risk policies and risk appetite approved by Board of Directors. Board of Directors determines risk appetite and inherent risk limits of liquidity. Within approved risk appetite, inherent liquidity limits, and considering Bank’s strategy and market conditions, Assets and Liabilities Committee (ALCO) is the decision making body regarding balance sheet management, identification and efficiency of funding sources, and determination of potential risks. The Asset-Liability Management Committee is responsible for preparing middle and long term liquidity strategies.

Strategic funding plan forms up the primary basis of the liquidity and funding risk management, updated at least in annual basis and formed up within the scope of risk appetite. According to the strategic funding plan approved by ALCO, actions are considered in order to provide the most cost-efficient, diversified and and stable funding resources in terms of maturity, currency and funding resource;to monitor and evaluate balance sheet movements and projections and the current status of the balance sheet by APSY.

In addition to that, current and planned liquidity positions of bank is tracked at tactical ALCO meetings with the participation of business representatives at least on weekly basis and business line representatives are informed in order to be taken of necessary actions. The aim of these meetings is to ensure that the negative net cash flow of the bank liquidity will not occur and be managed in a way that will not lead to excess limits by comparing the current situation regarding to the balance sheet structure of business line with the approved limit usage of strategic funding plans and liquidity.

Information regarding functioning of liquidity management and the extent of centralization in funding strategy amid the Parent Bank and its subsidiaries:

All subsidiaries of the Parent Banks’ controlling shareholder plan and manage their liquidity within the limits of their risk appetite and internal limits.

The information about the Parent Bank’s funding strategy including policies on diversification of its sources and tenor of funding:

Liquidity and funding management of the the Parent Bank adopts funding illiquid assets with core funding instruments and funds in the need of to be always available as a principle.Core funding instruments are consisted of core deposit and long term non-deposit debt instruments.Within this context, liquidity and funding management is primarily based on the stability of Banks’ deposit base and considers total core deposits as primary measurement. Deposits of retail banking customers is the primary component of funding management because they are more stable and cost-efficient compared to other line of businesses. At the same time, other debt instruments with maturities of medium and long term are also used because of diversifying and balancing funding base in terms of maturity, currency, fund resource and cost; and because their average deposit maturity is less than assets.

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VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)

Information on liquidity management based on currency which consists of a minimum of 5% of the Parent Bank’s total liabilities:

Almost all of the Parent Banks’ total liabilities are in TL, USD and EURO. Liabilities in TL are generally consisted of deposits, repurchase agreements and Shareholder’s Equity. Liabilities in FC are consisted of deposits in FC and other debt instruments in FC.

Consolidated liquidity measurement of the Parent Banks’ total liquidity and selected currencies for short and long terms is planned within the context of strategic funding plan. FC and total internal risk limits approved by BoD exists.

Information on liquidity risk mitigation techniques:

In order to lower liquidity risk, internal liquidity limits above legal limits and liquidity buffer is used. Funding resources are diversified as much as possible by planning cash inflows and outflows within the context of strategic funding plan. Therefore, effective management of concentrations is ensured in terms of maturity, currency and funding resources. The Parent Bank also uses derivative transactions in order to lower liquidity risks.

Explanation of the usage of stress test:

Along with legal liquidity risk calculations and restrictions, in terms of liquidity management, stress tests and scenario analyses formed up according to the international liquidity management policies of HSBC are used. In these scenarios, liquidity crisis scenarios of the Parent Bank and macro liquidity crisis scenarios are considered. Triggering factors of liquidity risk and prewarning signals are tracked. Analyses and results of liquidity risk are tracked in tactical ALCO meetings weekly and in ALCO-Market Risk Committees monthly.

General Information on liquidity emergency and contingency plans:

Liquidity Emergency and Contingency Plan is approved by the BoD and ALCO and renewed on yearly basis. Plan contains detailed analyses and information about the actions to be taken in crisis management and employees responsible for the process, liquidity Access resources, liquidity situation of the Parent Bank, early warning indicators within graded liquidity crisis scenarios.

a. Liquidity coverage rate:

The change in matters that impact liquidity coverage rate and units that are used for the calculation of the ratio:

Liquidity coverage rate is calculated by dividing high quality liquid assets that Bank owns to net cash outflows with maturity of 1 month. Reserve requirements kept by CBT, reverse repurchase agreements, securities that are not subject to repurchase/collateral held for providing liquidity, corporate and bank deposits that may cause high cash outflows, non-deposit borrowings that are became due and receivables from banks form the most important components to affect the results of liquidity coverage rate because of being liquid assets, having high volume in net cash outflows and having high rate of consideration.

Since the internal liquidity limits of the Parent Bank is more conservative compared to liquidity coverage rate, bank liquidity coverage rate is greater than legal and internal limits. The ratio may fluctuate periodically due to reasons listed below;

- Changes in reserve requirements because of using FC reserve option in reserve requirement accounts kept by CBT.
- Transfer of the short-term liquidity to Money markets instead of debt instruments issued by CBT based on market conditions.
- Fluctuation of bank and corporate deposits that are highly considered in fund resources.
- Fluctuations that may occur due to the aging of non-deposit borrowings.
- Less than 1 month remaining maturity of cash inflows/outflows resulted specifically from FC derivative transactions.

Explanation regarding the components of high quality liquid assets:

High quality liquid assets are consisted of cash, effective depot, cheques purchased, time and demand deposit by CBT, overnight borrowing provided to banks via CBT in Interbank Money Market, reverse repurchase transactions and securities that are not subject to repurchase/collateral for providing liquidity.

Components density of fund resources in all funds:

The Parent Bank’s founding sources are consisted of real person and retail deposit, corporate bank deposits, repurchase agreements and borrowings. Deposits that are used for founding consists 62% of total liabilities.

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VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)

Information about cash outflows resulted from derivative transactions and transactions that are likely to be collateralized:

Cash outflows resulted from derivative transactions are taken into account of liquidity coverage rate calculation by considering TL and FC net cash flows with 30-days maturity. Net cash flows resulted from derivative transactions have minimal effect on total liquidity coverage rate, however, differences in derivative volumes because of FC derivatives used in the management of cash flows based on currencies and because of incoming maturities of derivative transactions, periodic fluctuations on FC liquidity coverage rate may occur.

Concentration limits of collaterals in terms of fund resources based on counterparty and products:

Within the context of strategic funding plan, cash inflows and outflows are planned and effective management of concentration of fund resources in terms of maturity, currency and fund resource is aimed. In the context, customer-based deposit concentrations, limits and usages set up for the counterparties in non-deposit borrowings and maturity-based distribution of non-deposit borrowings are tracked and reported to ALCO every month periodically.

Exposed liquidity risk in the need of funding based on the bank itself, foreign branches and consolidated subsidiaries while considering operational and legal factors hampering liquidity transfer:

Liquidity risks of the Parent Bank’s foreign branches are managed in compliance with the regulations of related country.

	Total value to which the consideration ratio is not applied (*)		Total value to which the consideration ratio is applied (*)	
	TL+FC	FC	TL+FC	FC
Current Period – 31.12.2016				
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			5.634.288	3.039.004
Cash Outflows				
Real person and retail deposits	11.148.748	6.344.623	903.871	556.456
Stable deposits	4.220.082	1.560.123	211.004	78.006
Less stable deposits	6.928.666	4.784.500	692.867	478.450
Unsecured debts other than real person and retail deposits	7.038.220	2.659.128	4.741.682	1.396.234
Operational deposits	144.220	-	7.211	-
Non-operational deposits	2.486.139	566.070	2.324.453	456.106
Other unsecured debts	4.407.861	2.093.058	2.410.018	940.128
Secured debts				
Other cash outflows	36.002	1.635.995	36.002	1.635.995
Derivative liabilities and collateral completion liabilities	36.002	1.635.995	36.002	1.635.995
Debts related to the structured financial products	-	-	-	-
Payment commitments for debts to financial markets and other off-the-balance sheet liabilities	-	-	-	-
Other off-the-balance sheet and revocable (without contingency) liabilities and other contractual liabilities	4.665.288	305.556	233.264	15.278
Other irrevocable or revocable (based on conditions) off-the balance sheet debts	885.516	83.598	265.655	25.079
TOTAL CASH OUTFLOWS			6.180.474	3.629.042
Cash inflows				
Secured liabilities	-	-	-	-
Unsecured liabilities	4.720.226	2.809.280	3.710.664	2.681.534
Other cash inflows	236.592	1.145.040	236.592	1.145.040
TOTAL CASH INFLOWS	4.956.818	3.954.320	3.947.256	3.826.574
			Values to which the upper limit is applied	
TOTAL HIGH QUALITY LIQUID ASSETS			5.634.288	3.039.004
INVENTORY			2.233.218	907.261
TOTAL NET CASH OUTFLOWS			2.233.218	907.261
LIQUIDITY COVERAGE RATIO (%)			252,29	334,96

(*) Simple arithmetic average for last 3 months is calculated for items of the table which are calculated by weekly simple arithmetic averages.

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VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)

Table below represents lowest, highest and average liquidity coverage rates for three month period of 2016.

	Current Period - 31.12.2016			
	TL+FC		FC	
Highest (%)	362,85		563,37	
Date	01.12.2016		01.12.2016	
Lowest (%)	169,87		153,35	
Date	01.11.2016		03.10.2016	
Average (%)	252,29		334,96	
	Total value to which the consideration ratio is not applied (*)		Total value to which the consideration ratio is applied (*)	
Prior Period – 31.12.2015	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			4.967.784	2.278.213
Cash Outflows				
Real person and retail deposits	14.060.614	7.417.264	1.122.866	646.599
Stable deposits	5.663.907	1.902.556	283.195	95.128
Less stable deposits	8.396.707	5.514.708	839.671	551.471
Unsecured debts other than real person and retail deposits	6.666.197	3.653.874	3.492.259	1.700.971
Operational deposits	141.665	-	7.083	-
Non-operational deposits	643.116	302.539	374.031	134.905
Other unsecured debts	5.881.416	3.351.335	3.111.145	1.566.066
Secured debts	-	-	-	-
Other cash outflows	-	33.393	-	33.393
Derivative liabilities and collateral completion liabilities	-	33.393	-	33.393
Debts related to the structured financial products	-	-	-	-
Payment commitments for debts to financial markets and other off-the-balance sheet liabilities	-	-	-	-
Other off-the-balance sheet and revocable (without contingency) liabilities and other contractual liabilities	7.819.429	373.458	390.971	18.673
Other irrevocable or revocable (based on conditions) off-the-balance sheet debts	958.617	-	287.585	-
TOTAL CASH OUTFLOWS			5.293.681	2.399.635
Cash inflows				
Secured liabilities	-	-	-	-
Unsecured liabilities	4.946.316	2.242.426	3.730.286	2.096.087
Other cash inflows	415.177	1.012.780	415.177	1.012.780
TOTAL CASH INFLOWS	5.361.493	3.255.206	4.145.463	3.108.867
			Values to which the upper limit is applied	
TOTAL HIGH QUALITY LIQUID ASSETS			4.967.784	2.278.213
INVENTORY				
TOTAL NET CASH OUTFLOWS			1.323.420	599.909
LIQUIDITY COVERAGE RATIO (%)			375,37	379,76

(*) Simple arithmetic average for last 3 months is calculated for items of the table which are calculated by weekly simple arithmetic averages.

Table below represents lowest, highest and average consolidated liquidity coverage rates by taking their simple averages for the last three month period of 2015.

	Prior Period - 31.12.2015	
	TL+FC	FC
Highest (%)	317,72	571,88
Date	30.11.2015	31.12.2015
Lowest (%)	250,68	273,72
Date	31.12.2015	30.10.2015
Average (%)	375,37	379,76

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VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)

b. Breakdown of assets and liabilities according to their outstanding maturities:

Current Period - 31 December 2016	Demand	Up to 1 Month	1 - 3 Months	3 - 12 Months	1-5 Years	5 Years and Over	Unallocated	Total
Assets								
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the CBRT Banks	318.227	1.450.693	-	-	-	-	-	1.768.920
Financial Assets at Fair Value through Profit or Loss (Net)	8.407	95.335	102.323	366.648	387.458	45.646	-	1.005.817
Interbank Money Market Placements	-	4.372.998	-	-	-	-	-	4.372.998
Financial Assets Available-for-Sale (Net)	-	-	320.306	397.132	530.243	8.788	8.002	1.264.471
Loans (*)	-	4.441.358	2.504.856	2.252.956	4.132.076	852.994	449.628	14.633.868
Investments Held-to-Maturity	-	-	-	-	-	-	-	-
Other Assets (**)	-	30.015	-	24.327	68.007	-	281.650	403.999
Total Assets	483.649	11.190.206	2.927.485	3.041.063	5.117.784	907.428	742.295	24.409.910
Liabilities								
Bank Deposits	123.171	44.488	-	-	-	-	-	167.659
Other Deposits	3.102.986	10.486.157	1.174.485	190.529	256	-	-	14.954.413
Funds from Interbank Money Market	-	531.938	-	-	-	-	-	531.938
Miscellaneous Payables	-	224.516	67.391	49.219	1.237	-	1.850	344.213
Issued Marketable Securities (Net)	-	-	-	-	-	-	-	-
Funds Borrowed	3.171	-	2.160	3.530	2.332.148	1.983.954	-	4.324.963
Other Liabilities (***)	-	60.515	122.118	577.687	490.086	25.695	2.810.623	4.086.724
Total Liabilities	3.229.328	11.347.614	1.366.154	820.965	2.823.727	2.009.649	2.812.473	24.409.910
Net Liquidity Gap	(2.745.679)	(157.408)	1.561.331	2.220.098	2.294.057	(1.102.221)	(2.070.178)	-
Prior Period - 31 December 2015								
Total Assets	726.141	12.840.047	3.354.215	5.562.640	7.324.976	1.159.631	705.196	31.672.846
Total Liabilities	3.385.257	14.273.554	3.021.921	2.038.948	4.026.993	1.684.389	3.241.784	31.672.846
Net Liquidity Gap	(2.659.116)	(1.433.507)	332.294	3.523.692	3.297.983	(524.758)	(2.536.588)	-

(*) Loans include factoring receivables amounting to TL 476.308 (31 December 2015: TL 584.068).

(**) Assets that are necessary for banking activities and that cannot be liquidated in the short-term, such as fixed and intangible assets, investments, subsidiaries, stationery, pre-paid expenses and non-performing loans, are classified in this column.

(***) Shareholders' Equity is presented under "Other Liabilities" item in the "Unallocated" column.

c. Breakdown of liabilities according to their remaining contractual maturities

Current Period - 31 December 2016	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Total
Bank Deposits	167.731	-	-	-	-	167.731
Other Deposits	13.649.920	1.182.043	193.751	271	-	15.025.985
Funds Provided Under Repurchase Agreements	532.398	-	-	-	-	532.398
Borrowings	-	5.179	511	2.449.495	2.879.991	5.335.176
Total	14.350.049	1.187.222	194.262	2.449.766	2.879.991	21.061.290
Prior Period - 31 December 2015						
Bank Deposits	77.775	-	-	-	-	77.775
Other Deposits	16.219.722	2.540.566	239.793	5.118	-	19.005.199
Funds Provided Under Repurchase Agreements	791.658	-	-	-	-	791.658
Borrowings	11.679	666.836	3.041.693	7.058.051	4.029	10.782.288
Total	17.100.834	3.207.402	3.281.486	7.063.169	4.029	30.656.920

d. Information on securitisation positions:

None.

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VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)

e. Breakdown of derivative instruments according to their remaining contractual maturities:

Current Period - 31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and Over	Total
Derivatives held for trading						
Foreign exchange derivatives:						
- Inflow	5.473.843	3.754.913	6.465.219	3.913.353	-	19.607.328
- Outflow	5.394.478	3.743.249	6.178.389	3.586.016	-	18.902.132
Interest rate derivatives:						
- Inflow	53	753	2.101	41.437	34.450	78.794
- Outflow	-	526	2.104	36.263	25.695	64.588
Total Inflow	5.473.896	3.755.666	6.467.320	3.954.790	34.450	19.686.122
Total Outflow	5.394.478	3.743.775	6.180.493	3.622.279	25.695	18.966.720
Prior Period - 31 December 2015						
Derivatives held for trading						
Foreign exchange derivatives:						
- Inflow	9.004.371	5.271.357	8.373.375	3.512.742	8.080	26.169.925
- Outflow	9.006.331	5.009.462	8.090.698	3.146.662	9.839	25.262.992
Interest rate derivatives:						
- Inflow	6	236	1.899	33.376	41.526	77.043
- Outflow	3	44	2.021	27.210	32.373	61.651
Total Inflow	9.004.377	5.271.593	8.375.274	3.546.118	49.606	26.246.968
Total Outflow	9.006.334	5.009.506	8.092.719	3.173.872	42.212	25.324.643

VIII. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO

Below is the table about leverage rate according to the Guideline of the Measuring and Evaluating Banks' Leverage Rate, published in the Official Gazette no.28812 and dated 5 November 2013.

	Current Period 31.12.2016 (*)	Prior Period 31.12.2015 (*)
Assets On the Balance Sheet		
Assets on the balance sheet (excluding derivative financial instruments and loan derivatives, including collaterals)	23.968.493	30.293.383
(Assets deducted from core capital)	(83.286)	(47.619)
Total risk amount for assets on the balance sheet	23.885.207	30.245.764
Derivative Financial Instruments and Loan Derivatives		
Renewal cost of derivative financial instruments and loan derivatives	875.210	775.367
Potential credit risk amount of derivative financial instruments and loan derivatives	380.549	612.385
Total risk amount of derivative financial instruments and loan derivatives	1.255.759	1.387.752
Financing Transactions With Securities Or Goods Warranties		
Risk amount of financial transactions with securities or goods warranties (excluding those in the balance sheet)	69.590	38.133
Risk amount arising from intermediated transactions	-	-
Total risk amount of financing transactions with securities or goods warranties	69.590	38.133
Off-the-Balance Sheet Transactions		
Gross nominal amount of the off-the-balance sheet transactions	24.613.139	10.556.462
Adjustment amount arising from multiplying by the credit conversion rate	-	-
Total risk amount for off-the-balance sheet transactions	24.613.139	10.556.462
Capital and Total Risk		
Core capital	2.296.224	2.710.595
Total risk amount	49.823.695	42.228.111
Leverage Ratio		
Leverage Ratio (%)	4,61	6,42

(*) Table represents three month average amounts.

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VIII. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO (Continued)

	Current Period (**)	Prior Period (**)
Total assets in consolidated financial statements prepared in accordance with Turkish Accounting Standards (*)	26.889.276	32.378.284
The difference between total assets prepared in accordance with Turkish Accounting Standards and total assets in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements”	(137.787)	636.512
The difference between the amounts of derivative financial instruments and credit derivatives in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments	(380.549)	(612.386)
The difference between the amounts of securities or commodity financing transactions in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments	3.537.114	2.700.730
The difference between the amounts of off-balance items in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items	-	-
Other differences between the amounts in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items	-	-
Total risk amount	49.823.694	42.228.111

(*) Consolidated financial statements prepared in compliance with the Article 6 of the Communiqué 5 “Preparation of Consolidated Financial Statements.

(**) Table represents three month average amounts.

IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

a. Explanations on calculation of financial assets and liabilities at their fair values:

The expected fair value of the demand deposits represents the amount to be paid upon request. The fair values of the overnight deposits and floating rate placements represent the carrying value. The expected fair value of the fixed rate deposits is determined by calculating the discounted cash flow using the market interest rates of similar liabilities and loans.

The estimated fair value of loans and borrowing with bank placements is determined by calculating the discounted cash flow using the current market rates for the loans with fixed rate. For the loans with floating interest rates, it is assumed that carrying value reflects the fair value.

Available-for-sale financial assets at fair value of shares of the bank, which they are traded in the market at the reporting date, calculated based on the determined closing prices. The fair value of the shares that not traded in the market is determined by its cost. Government debt securities classified as available-for-sale financial assets have been measured by fair value that are used price that on the market. Thus, there is no difference between their fair value and carrying value.

	Carrying Value		Fair Value	
	Current Period 31 December 2016	Prior Period 31 December 2015	Current Period 31 December 2016	Current Period 31 December 2015
Financial Assets	21.231.174	26.128.437	21.142.767	26.186.766
Interbank Money Market Placements	4.372.998	3.879.540	4.372.998	3.879.540
Banks	959.837	515.648	959.837	515.648
Financial Assets Available-for-Sale (Net)	1.264.471	654.277	1.264.471	654.277
Investments Held-to-Maturity (Net)	-	-	-	-
Loans (*)	14.633.868	21.078.972	14.545.461	21.137.301
Financial Liabilities	19.791.248	26.675.011	19.834.797	26.719.404
Bank Deposits	167.719	77.761	167.719	77.761
Other Deposits	14.954.353	18.939.014	14.981.908	18.976.522
Borrowings	4.324.963	7.002.602	4.340.957	7.009.487
Securities Issued	-	-	-	-
Miscellaneous Payables	344.213	655.634	344.213	655.634

(*) Includes the factoring receivables amounting to TL 476.308 (31 December 2015: TL 584.068).

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IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

b. Explanations on fair value hierarchy:

Aforesaid classifications related to fair values are determined as follows;

- 1st level, amounts are valued by quoted market prices for assets and liabilities,
- 2nd level, directly or indirectly observable data for the assets and liabilities, other than quoted prices in the 1st level
- 3rd level, data are not observable regarding to assets and liabilities.

Current Period - 31 December 2016	1st Level	2nd Level	3rd Level	Total
Financial Assets at Fair Value Through Profit or Loss	89.602	916.215	-	1.005.817
- Government debt securities	89.602	-	-	89.602
- Share certificates	-	-	-	-
- Trading derivative financial assets	-	907.808	-	907.808
- Other securities	-	8.407	-	8.407
Hedging Derivative Financial Assets	-	69.454	-	69.454
Available for Sale Financial Assets	1.256.469	1.342	-	1.257.811
- Share certificates (*)	-	1.342	-	1.342
- Government debt securities	1.256.469	-	-	1.256.469
- Other marketable securities	-	-	-	-
Total Assets	1.346.071	987.011	-	2.333.082
- Trading Derivative Financial Liabilities	-	667.258	-	667.258
Hedging Derivative Financial Liabilities	-	-	-	-
Total Liabilities	-	667.258	-	667.258

Prior Period - 31 December 2015	1st Level	2nd Level	3rd Level	Total
Financial Assets at Fair Value Through Profit or Loss	1.015.651	656.616	-	1.672.267
- Government debt securities	1.015.651	-	-	1.015.651
- Share certificates	-	-	-	-
- Trading derivative financial assets	-	651.434	-	651.434
- Other securities	-	5.182	-	5.182
Hedging Derivative Financial Assets	-	20.666	-	20.666
Available for Sale Financial Assets	624.482	160	-	624.642
- Share certificates	-	160	-	160
- Government debt securities	624.482	-	-	624.482
- Other marketable securities	-	-	-	-
Total Assets	1.640.133	677.442	-	2.317.575
- Trading Derivative Financial Liabilities	-	357.168	-	357.168
Hedging Derivative Financial Liabilities	-	10.800	-	10.800
Total Liabilities	-	367.968	-	367.968

(*) Unquoted share certificates amounting to TL 6.660 (31 December 2015: TL 29.635), measured at cost in accordance with TAS 39, are not included.

X. EXPLANATIONS REGARDING THE ACTIVITIES CARRIED OUT ON BEHALF AND ACCOUNT OF OTHER PARTIES

a. Transaction, Custody, Management and Consultancy Services of the Group on behalf of Third Parties:

The Group acts as an intermediary for purchases and sales of government securities on behalf and account of other persons, and provides custody services. The Bank, within special customer service, provides portfolio management and consultancy services to its customers.

b. Transactions with other financial institutions under fiduciary transaction agreements and financial services rendered to other financial institutions under the scope of fiduciary transactions and the effects of such services to the financial position of the Group:

None.

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XI. EXPLANATIONS ON RISK MANAGEMENT

Notes and explanations in this section have been prepared in accordance with the Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks that have been published in Official Gazette no. 29511 on 23 October 2015 and became effective as of 31 March 2016. According to Communiqué have to be presented on a quarterly basis. Due to usage of standard approach for the calculation of capital adequacy by the Bank, the following required tables have not been presented on 31 December 2016:

- RWA(Risk Weighted Amount) flow statements of CCR exposures under the Internal Model Method (IMM)
- RWA flow statements of credit risk exposures under IRB
- RWA flow statements of market risk exposures under an IMA

a. Explanations on Risk Management and Risk Weighted Amount:

1. Bank's Risk Management Approach

Ensuring risk management and efficiency is the Bank Board of Directors' responsibility. The Board of Directors writes and approves policies concerning risk management activities, periodically examines their implementation, and takes the necessary measures related to setting up and maintaining a risk management system within the body of the Bank in line with the local regulations.

The Board of Directors includes the risk management system in the management structure of the Bank in line with the regulations and procedures required by legislation. It also sets principles and procedures related to the system's administrative structure, recruiting personnel, and ensuring continuity. The Board of Directors examines the Bank's Executive Management Unit and Risk Management Unit evaluations of the risk management process, evaluates the reliability and adequacy of the risk management models, and takes the necessary actions. The Board of Directors determines and documents, in writing, the strategies, policies, and implementation methods for department systems, ensures effective implementation and continued use of the methods, ensures the coordination, and allocates the necessary resources. The Board of Directors is informed about the risks the Bank is subject to, as well as the methods for measuring and managing these risks. It determines in writing the policies and strategies concerning risk management, the level of risk the Bank can accept, methods of implementation generally and for each risk type, and identifies maximum risk limits for departments, managers, and staff. It approves the policies concerning taking, monitoring, managing, and reporting the risks that will drastically affect income and expenses by determining the risk appetite of the bank, approves changes in these policies, and supervises their implementation.

The Board of Directors ensures executive management provides it with timely and reliable reports regarding the risks the bank faces, determines data management policies, identifies processes and establishes control mechanisms to ensure the systems perform effectively, and ensures the implementation of these processes.

The Board of Directors is liable to ensure the Internal Capital Adequacy Evaluation Process is set and implemented, and to fulfil the other responsibilities laid out in regulations. The Audit Committee, Risk Committee, Asset-Liability Committee, and other related committees carry out the supervision responsibility of the Board of Directors to ensure perpetual supervision.

The Audit Committee has been assigned by the Board of Directors to be the Internal Systems Supervisor for all departments with regard to internal systems. The Audit Committee checks the effectiveness and adequacy of the internal systems of the Bank on behalf of the Board of Directors, supervises how these internal systems, accounting systems, and reporting systems work within the framework of the Law and regulations, ensures the integrity of the generated data, and does the necessary pre-evaluation for the Board of Directors to enable them to choose independent audit companies and rating, valuation, and support service organisations. Moreover, it regularly monitors the operations of organisations that the Board of Directors chooses and signs contracts with, ensuring continuity and coordination of the internal audit operations of the partnerships subject to consolidation in line with legal regulations, and sets up communication channels that ensure internal systems staff can directly access them. The Audit Committee also recommends managers for these units to the Board of Directors, provides opinions when relieving these managers of duty, hears and evaluates the opinions and recommendations of executive management concerning internal systems, gives recommendations on the qualities required for personnel who will work in internal systems units, and evaluates the education levels and adequacy of the internal systems manager and personnel. It is in charge of

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

and responsible for assessing the availability of the necessary equipment and methods to detect, evaluate, monitor, and control the risks the Bank carries, as well as for fulfilling other liabilities mentioned in regulations. The Audit Committee is responsible for setting an audit and control process that will ensure the adequacy and correctness of the Internal Capital Adequacy Evaluation Process and for monitoring the internal validation of the risk measurement methodology the Bank uses to assess the adequacy of the economic and/or legal capital. If the Bank does not have the expertise to validate the internal model, the Audit Committee approves and monitors support from an expert organisation.

The Risk Management Committee is responsible for monitoring and managing all Bank risk. It focuses mainly on risk policies, risk appetite, and risk concentration. The main focus of the committee is to evaluate changes in the operations of the lines of business and in markets where the lines of business operate, to analyse the effects of risk, and to handle these risks related to the future. The committee is responsible for:

- providing instructions and solving problems concerning risk policies and risk management,
- evaluating the main potential and current risks in the changing business atmosphere and political environment,
- tracking and checking the management of important risks,
- ensuring an appropriate risk culture is in place.

The Asset-Liability Committee’s main responsibilities are:

- providing continuous guidance to set up a perpetually developing structure in line with estimated risk parameters and the Bank’s performance objectives,
- monitoring asset-liability and capital management risk and determining its effects,
- providing a forum where matters concerning asset-liability management can be discussed,
- providing opportunities for teamwork between various lines of work,
- finalising inter-unit matters such as transfer pricing and effective distribution of resources,
- reviewing fund sources and fund utilisation areas,
- monitoring capital adequacy, ensuring capital management within legal and internal limits, and reviewing the Internal Capital Adequacy Evaluation Process and documents,
- determining the most likely scenarios in terms of asset-liability planning by monitoring external banking factors and reviewing emergency plans, and
- evaluating alternate scenarios including interest, pricing, and portfolio structure, and reviewing asset-liability and term structure distribution.

These committees are supported by sub-committees such as the Tactical Asset-Liability Committee, the Market Risk Committee, the Stress Test Observation Committee, and the Model Observation Committee.

The Risk Management Unit is made up of a unit manager, working independently of operational units, and adequate staff. Formerly, starting 31 December 2016, the Risk Management Unit worked under the Board of Directors through the Vice General Manager of Internal Systems and Regulations. Starting 16 February 2017, it began reporting directly to the Audit Committee.

The Risk Management Unit is responsible for risk management operations, for which the framework is laid out in the guidelines published by the Board and other legislation, and specifically for ensuring good practices related to banking law, the Regulation on Internal Systems of Banks and the Internal Capital Adequacy Evaluation Process, the Capital Markets Law. The main duty of the Risk Management Unit is defining, evaluating, monitoring, reviewing, and reporting risk. The Risk Management Unit provides the necessary training and advisory services to all lines of work to increase risk management awareness and ensure effective implementation of the risk management framework throughout the bank. It reviews the adequacy of risk control evaluation efforts for all lines of work. It ensures that key indicators are reviewed to monitor the risk levels of high risk points and that risk-lowering action plans are prepared and tracked. It helps analyse losses and sets up the necessary monitoring and tracking mechanisms for lines of work to complete the required corrective actions on time. It provides opinions on new products and changes to current products and evaluates the effectiveness of the risk management for new products. It analyses risk control evaluation results, outcomes of actions, possible losses, and operational losses, and shares the related reports with the Risk Management Committee. The Risk Management Unit works in coordination with the Internal Audit Unit, responsible for evaluating audit during operational risk management, the Risk Unit, which has its own risk responsibility, and the Asset-Liability Unit and the Capital Management Unit, which are responsible for market risks.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

The Risk Management Unit and other relevant units carry out and report on stress tests. Stress test results are regularly reported to the Stress Test Observation Committee, the Bank’s executive management, and the relevant top management by the Risk Management Unit and relevant units. Within the scope of stress tests, the Bank regularly applies sensitivity analyses and scenario analyses which cover market risk, exchange risk, liquidity risk, counterparty credit risk, concentration risk, country risk, operational risk, and interest rate risk for banking accounts. When necessary, additional stress tests can be carried out depending on market and economy conditions, portfolio changes, and legislation changes. Also, holistic stress tests are carried out for use in the Internal Capital Adequacy Assessment Process.

2. Overview of Risk Weighted Amounts:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period 31 December 2016	Prior Period 31 December 2015	Current Period 31 December 2016
Credit risk (excluding counterparty credit risk) (CCR) (*)	15.926.335	23.819.295	1.274.107
Standardised approach (SA)	15.926.335	23.819.295	1.274.107
Internal rating-based (IRB) approach	-	-	-
Counterparty credit risk	919.077	19.952	73.526
Standardised approach for counterparty credit risk (SA-CCR)	919.077	19.952	73.526
Internal model method (IMM)	-	-	-
Equity position in banking book under basic risk weighting or internal rating-based	-	-	-
Equity investments in funds – look-through approach	-	-	-
Equity investments in funds – mandate-based approach	-	-	-
Equity investments in funds – 1250% risk weighting approach	-	-	-
Settlement risk	-	-	-
Securitisation exposures in banking book	-	-	-
IRB ratings-based approach (RBA)	-	-	-
IRB supervisory formula approach (SFA)	-	-	-
SA/simplified supervisory formula approach (SSFA)	-	-	-
Market risk	736.575	1.293.831	58.926
Standardised approach (SA)	736.575	1.293.831	58.926
Internal model approaches (IMM)	-	-	-
Operational risk	3.336.981	3.307.776	266.958
Basic indicator approach	3.336.981	3.307.776	266.958
Standardised approach	-	-	-
Advanced measurement approach	-	-	-
Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
TOTAL	20.918.968	28.440.854	1.673.517

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

b. Linkages Between Financial Statements and Regulatory Exposures

1. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values under scope of regulatory consolidation	Carrying values of items in accordance with TAS			
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets					
Cash and balances at central bank	1.768.920	1.768.920	-	-	-
Financial assets held for trading	1.005.817	-	907.808	98.009	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-
Banks	959.837	959.837	-	-	-
Receivables from money markets	4.372.998	-	4.372.998	-	-
Available for sale financial assets (net)	1.264.471	1.264.471	-	-	-
Loans and receivables	14.157.560	14.147.597	-	-	9.963
Factoring receivables	476.308	476.308	-	-	-
Held to maturity investments (net)	-	-	-	-	-
Investments in associates (net)	-	-	-	-	-
Investments in subsidiaries (net)	270	270	-	-	-
Investments in joint ventures (net)	-	-	-	-	-
Leasing receivables	-	-	-	-	-
Derivative financial assets held for hedges	69.454	-	69.454	-	-
Tangible assets (net)	81.599	81.598	-	-	-
Intangible assets (net)	128.000	2.132	-	-	125.868
Investment properties (net)	-	-	-	-	-
Tax assets	4.556	4.556	-	-	-
Non-current assets and disposal groups classified as held for sale (net)	2.742	2.742	-	-	-
Other assets	117.378	117.378	-	-	-
Total Assets	24.409.910	18.825.809	5.350.260	98.009	135.831
Liabilities					
Deposits	15.122.072	-	-	-	15.122.072
Derivative financial liabilities held for trading	667.258	-	667.258	667.258	667.258
Loans	2.341.009	-	-	-	2.341.009
Debt to money markets	531.938	-	531.938	-	531.938
Debt securities in issue	-	-	-	-	-
Funds	-	-	-	-	-
Various Debts	344.213	-	-	-	344.213
Other Debts	260.572	-	-	-	260.572
Factoring debts	-	-	-	-	-
Debts from leasing transactions	-	-	-	-	-
Derivative financial liabilities held for hedge	-	-	-	-	-
Provisions	776.736	-	-	-	776.736
Tax liability	44.690	-	-	-	44.690
Liabilities included in disposal groups classified as held for sale (net)	-	-	-	-	-
Subordinated Debts	1.983.954	-	-	-	1.983.954
Equity	2.337.468	-	-	-	2.337.468
Total Liabilities	24.409.910	-	1.199.196	667.258	24.409.910

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Total	Items subject to credit risk framework	Items subject to counterparty credit risk framework	Items subject to market risk framework
Asset carrying value amount under scope of regulatory consolidation	24.409.910	18.825.809	5.350.260	98.009
Liabilities carrying value amount under regulatory scope of consolidation	531.938	-	1.199.196	(667.258)
Total net amount under regulatory scope of consolidation	24.941.848	18.825.809	6.549.456	(569.249)
Off-balance sheet amounts	10.715.723	9.170.878	-	-
Differences in valuations		-	-	-
Differences due to different netting rules, other than those already included in row 2		-	-	-
Differences due to consideration of provisions		-	-	-
Differences due to applications of BRSA		(7.040.071)	(5.020.307)	1.305.824
Differences due to risk reduction		(226.222)	(13.482)	-
Credit valuation adjustment		-	240.823	-
Risk Amounts		20.730.394	1.756.490	736.575

3. Explanations of differences between accounting and regulatory exposure amounts in accordance with TAS

a) Differences between exposure amounts and amounts valued in accordance with TAS:

There is no difference between amounts valued in accordance with TAS reported in the financial statements and amounts valued in accordance with TAS within the scope of the legal consolidation process.

Fair value calculations the Bank makes for financial instruments are evaluated either at market value or using a model value based on product types. Valuation is carried out using “fair value measurement” in accordance with the valuation principles stated in the regulations appendix of the Bank’s Capital Adequacy Measurement and Assessment. While the Bank benefits from market prices for bonds, future contracts traded at the organised markets, it uses platforms producing model values for derivative transactions usually traded in over-the-counter markets. Valuations based on market or model value are made daily, and changes occurring in the market can be reflected to the Bank’s financials daily.

Credit value adjustments (CVA) are based on the current market value of credit risk arising from not meeting one of the liabilities in the agreement the Bank made with a counterparty and are included in the legal accounts, taking into account the all counterparties’ credit risks.

b) The following are explanations of the checks and systems which ensure the prudence and security of the Bank’s valuation estimations as per the prudential valuation principles in Appendix-3 of the Regulations Related to Bank Capital Adequacy Measurement and Evaluation:

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Financial instruments accounted for at fair value and which can be traded in an active market are valued based on market price. The accuracy of the market price used is periodically tracked. Fair valuation of financial instruments for which there is no active market is carried out in line with TAS 39. Derivative financial instruments are evaluated using a reduced cash flow model using market data. When valuing some financial instruments, valuations made by third parties and generally accepted valuation models are also used. The accuracy and independence of data used in valuations are periodically checked. In addition, detailed control processes exist, which enable the analysis of current market values of financial instruments and the profit/loss effect of daily transactions. Generally, systems are used and manual adjustments are avoided to ensure estimations related to valuations are prudent and reliable. In addition to existing controls, personnel carrying out purchase and sale transactions do not have any effect on valuation through market value.

c. Credit risk explanations:

1. General qualitative information about credit risk:

Risk limits are defined by Board of Directors in a such manner that covers all possible important risk components, in accordance with the Bank’s operations and the size and complexity of products and services. Care is taken to ensure that the risk limits are in line with market expectations and reflect the Bank's risk appetite and Bank's strategies. The credit policies are established in consistence with risk limits. Credit rating models are used in loan allocation processes in accordance with the risk appetite, credit policies and targets of the Bank. Rating all credit customers is essential for the Bank. Credit ratings are used as the main factor in determining target segments, authority levels, prices, limits and collateralization levels in loan portfolios.

Application models are used during initial loan underwriting and behavioral models are used for customers whose previous credit performance could be monitored. Behavioral models are mainly used in the credit monitoring process and in the evaluation process of portfolio risk. In order to ensure timely and complete fulfillment of all obligations arising from the loan, it is essential to obtain adequate collateral from the customers. The main purpose of collateralization of any loan is to minimize the credit, foreign exchange and maturity risk. In this context, the minimum margin is determined by considering the quality of the collateral and collection expectancy in case of default and it is ensured that appropriate collateral is obtained for the loan type.

Credit risk is encountered when the counterparty is unable to fulfill its obligations defined with the agreement. All credit risk bearing banking products are managed with prudent credit policies and procedures in the Bank. The credit quality of the counterparty is evaluated with an internal rating score in all credit transactions. In order to monitor the credit risk, internal limit are determined on the basis of sector, customer, credit type and customer segment. Credit risk management is a process in which credit risks are assessed and monitored in a consistent manner, besides all credit portfolios are included on a consolidated basis. During the process of credit risk management, the Risk Management Department conducts measurement, monitoring and reporting activities of the credit risk using statistical models. In addition to the credit risk-related risk limits, various concentrations in the loan portfolio are also analyzed. It is assured to act within the policy of allocation, monitoring, Limit Follow-up and management, by establishing policy regarding to Country risk and concentration risk management. Cost of loan and collections of non-performing loans are monitored periodically. In addition, stress testing and scenario analysis studies are carried out on the loan portfolio. Assessment of the internal systems established to encompass all branches and departments and related entities are among the highest priorities of the Board of Directors to ensure the continuity of its operations, competencies and activities.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Credit Quality of Assets

Provisions for defaulted exposures made in accordance with related ratios after considering collaterals presented in "Comminique of Provision". There is no differences for the bank between the definitons of past due and provision made loans.

Current Period 31 December 2016	Gross carrying values of (according to TAS)		Allowances / Impairment	Net Values
	Defaulted Exposures	Non-defaulted Exposures		
Loans	1.430.966	14.184.240	981.338	14.633.868
Debt Securities	-	1.355.153	675	1.354.478
Off-balance sheet exposure	329	14.374.483	206	14.374.606
Total	1.431.295	29.913.876	982.219	30.362.952

(*) Also includes factoring receivables amounting to TL 476.308.

3. Changes in Stock of Defaulted Loans and Debt Securities:

	Current Period 31 December 2016
I. Defaulted Loans and debt securities at prior period end	1.245.401
II. Loans and debt securities that have defaulted since the last reporting period	745.541
III. Returned to non-defaulted status	6.967
IV. Amounts written-off from asset	286.605
V. Other Changes	(266.075)
VI. Defaulted Loans and debt securities at current period end (I+II-III-IV±V)	1.431.295

4. Additional explanations on credit quality of assets

The following types of credit and receivables are defined as 'illiquid claims' and classified under non-performing loans:

- credit for which the principal and/or interest cannot be collected within 90 days from the date they are due,
- credit which cannot be collected completely because the debtor cannot pay the debt related to equities or collateral and which have the potential to cause loss if the situation is not corrected,
- credit for which the debtor's creditworthiness weakened and the credit is accepted to have become weak,
- credit for which the principal and/or interest cannot be paid for more than 90 days according to the Bank because the debtor has difficulty financing their operational capital or creating additional liquidity.

A provision is set aside for these kinds of credit based on the rates and collateral in regulations. The Bank recognises no difference between 'overdue' receivables and 'provision allocated' receivables.

Overdue receivables which exceed 90 days are subject to a special provision.

When determining the provision amount as per the Provisions Regulation, the relevant provisions should be taken into account based on the groups. Additionally, as per the Provisions Regulation, if liability related to credits and other receivables owed to the Bank cannot be met because of a temporary liquidity problem, credits and other receivables, including overdue interest, can be restructured by issuing additional credit as necessary to collect on Bank receivables, or can be included in a new redemption plan.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

a) Amounts of provision allocated receivables based on geographical area and sector and amounts deducted from the assets with the related provisions:

i. Breakdown by geographical area

	Current Period 31 December 2016
Domestic	13.724.606
European Union Countries	138.143
USA, Canada	22.224
OECD Countries	9.761
Off-shore Banking Regions	1.557
Other	287.949
Total	14.184.240

(*) OECD Countries other than EU countries, USA and Canada.

ii. Breakdown by Sector:

	Current Period 31 December 2016
Agriculture	33.505
Farming and Stockbreeding	16.549
Forestry	3.583
Fishery	13.373
Manufacturing	3.984.743
Mining and Quarrying	23.515
Production	3.784.154
Electricity, Gas and Water	177.074
Construction	882.187
Services	3.756.394
Wholesale and Retail Trade	1.076.275
Accommodation and Dining	32.840
Transportation and Telecom.	856.840
Financial Institutions	969.195
Real Estate and Rental Services	22
Self-Employment Services	675.160
Educational Services	229
Health and Social Services	145.833
Other	5.527.411
Total	14.184.240

5. Remaining maturity distribution of receivables

Details of maturity breakdown of receivables are disclosed in footnote VII, Section VII.

6. Provisions booked for receivables based on sector:

Provisions booked for receivables based on sector are disclosed in footnote II, Section IV.

7. Provisions booked for receivables based on sector based on geographical areas:

Non performing loans and provision amounts are mainly domestic. Specific provisions amounting to TL 949.608 are booked for domestic non performing loan risk amount of TL 1.390.188.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

- a) Ageing analysis of accounting past-due exposures

	31 December 2016
30-60 days past-due exposures	797.921
60-90 days past-due exposures	93.635
Total (*)	891.556

(*) The balance of the loans that are classified as closely monitored although they are not past due or past due for less than 30 days is TL 135.723.

- b) Breakdown of restructured receivables based on whether or not provisions are allocated:

	31 December 2016
Loans Structured from Standard Loans and Other Receivables	545.934
Loans Composed of Follow-on Loans and Other Receivables	359.668
Loans Restructured from Non-Performing Loans	48.819

8. Qualitative disclosure on credit risk mitigation techniques:

The Bank’s credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation. The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques. Financial collaterals, that are composed of cash or similar assets and instruments of a high credit quality as well as real estate mortgages have been used in credit risk mitigation.

If credit assignment is conditioned to a collateral extension, the data of the collaterals must be entered to the banking information system. Operational transactions are handled by centralized Operation unit. During the credit utilization, compliance of all conditions between credit decision and credit utilization (such as collateral conditions) are controlled systematically.

The Bank monitors up to date value of the collaterals by type. Credit monitoring process involves the control of the balance between the value of the collateral and risk besides creditworthiness of the customer.

9. Credit Risk Mitigation Techniques – Overview:

Current Period 31 December 2016	Exposures unsecured: carrying amount	Exposures secured by collaterals	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	13.142.987	1.490.881	1.086.255	254.808	210.428	-	-
Debt Securities	1.354.478	-	-	-	-	-	-
Total	14.497.465	1.490.881	1.086.255	254.808	210.428	-	-
Defaulted	1.416.335	14.593	-	367	367	-	-

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

c. Credit risk under standardised approach

1. Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

In Article 6 of Regulation on Bank's Capital Adequacy Measurement and Evaluation, all of the receivables risk classes of centralised management and the Central Bank, and Moody's Investor Service International Rating Agency rating grades for counterparty's foreign receivables were used. The risk ratings of centralised management and the Central Bank, which are not rated by Moody's Investor Service International Rating Agency, were determined to be gradeless. Domestic receivables were determined to be gradeless. Risk ratings of items which are not in purchase-sale accounts were determined by taking into account the issuer's credit rating.

The table below shows the credit risk ratings and credit quality scale for the grades given by Moody's Investor Service International Rating Agency.

Moody's Investor Service Credit Quality Scale

Long-term Credit Ratings

1 Aaa - Aa3

2 A1 - A3

3 Baa - Ba3

4 Ba1 - Ba3

5 B1 - B3

6 Caa1 and below

Short-term Credit Ratings

P-1

P-2

P-3

NP

HSBC Bank's Financial Power Rating

According to Moody's Credit Rating Institution's evaluations, HSBC Bank A.Ş.'s rating as of 31 December 2016 is as follows:

Definitions	Rating
Baseline Credit Assessment	b2
Outlook	Stable
Long-term foreign currency deposit rating	Ba3
Long-term TRY deposit rating	Ba3
Short-term foreign currency deposit rating	NP
Short-term TRY deposit rating	NP
Long-term national scale TRY deposit	A2.tr

According to Standard & Poor's' assessment, HSBC Bank A.Ş.'s ratings as of 31 December 2016 were as follows:

Definitions	Rating
Long-term foreign currency	BB
Short-term foreign currency	B
Long-term TRY	BB
Short-term TRY	B
Long-term national scale rating	trAA-
Short-term national scale rating	trA-1

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Standardised Approach-Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects

Current Period 31 December 2016	Exposures before Credit Conversion Factors and CRM		Exposures post- Credit Conversion Factors and CRM		Risk Weighted Amount and Risk Weighted Amount density	
	On-balance sheet amount	Off- balance sheet amount	On- balance sheet amount	Off- balance sheet amount	Risk Weighted Amount	Risk Weighted Amount density
Asset classes						
Exposures to central governments or central banks	3.178.372	5	3.164.892	1	1.760.068	56%
Exposures to regional governments or local authorities	-	-	-	-	-	0%
Exposures to public sector entities	-	302	-	60	60	100%
Exposures to multilateral development banks	-	-	-	-	-	0%
Exposures to international organizations	-	-	-	-	-	0%
Exposures to institutions	1.753.397	1.993.799	1.753.402	1.566.330	1.229.044	37%
Exposures to corporates	7.246.006	3.024.639	7.123.216	1.762.629	8.886.040	100%
Retail exposures	5.016.373	5.535.174	4.927.982	243.423	3.901.247	75%
Exposures secured by residential property	675.297	2.632	675.297	760	236.620	35%
Exposures secured by commercial real estate	361.954	6.421	361.953	1.904	181.929	50%
Past-due loans	468.817	-	468.450	-	492.036	105%
Higher-risk categories by the Agency Board	-	-	-	-	-	0%
Exposures in the form of covered bonds	-	-	-	-	-	0%
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	0%
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	0%
Other assets	405.903	152.751	405.903	30.682	158.369	36%
Investment in equities	-	-	-	-	-	0%
Total	19.106.119	10.715.723	18.881.095	3.605.789	16.845.413	75%

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Standardised Approach-Exposures by asset classes and risk weights

**Current Period
31 December 2016**

Asset Classes/ Risk Weight	0%	10%	20%	50% (secured by real estate)	75%	100%	150%	200%	35%	50%	Other Risk Weights	Total credit risk exposure amount (After CCF and CRM)
Exposures to central governments or central banks	1.404.825	-	-	-	-	1.760.068	-	-	-	-	-	3.164.893
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	60	-	-	-	-	-	60
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to International organizations	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	2.159.729	-	-	430.592	1.801	-	-	727.610	-	3.319.732
Exposures to corporates	-	-	-	-	-	8.885.455	390	-	-	-	-	8.885.845
Retail exposures	-	-	-	-	5.087.974	79.760	3.671	-	-	-	-	5.171.405
Exposures secured by residential property	-	-	-	-	-	-	-	-	676.057	-	-	676.057
Exposures secured by commercial real estate	-	-	-	363.857	-	-	-	-	-	-	-	363.857
Past-due loans	-	-	-	-	-	210.072	152.775	-	-	105.603	-	468.450
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assesment:	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	278.216	-	-	-	-	158.369	-	-	-	-	-	436.585
Total	1.683.041	-	2.159.729	363.857	5.087.974	11.524.376	158.637	-	676.057	833.213	-	22.486.884

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

d. Explanations on counterparty credit risk

1. Qualitative disclosure on counterparty credit risk

Counterparty credit risk refers to the risk when a party to a transaction in which both parties are liable becomes a default risk before the non-cash final payment of the said transaction. The Bank has taken positions on derivative financial instruments, repurchase agreements, reverse repurchase agreements, and similar transactions within the scope of counterparty’s credit risk. The counterparty’s credit risk is made up of the degree of probability that risk will fluctuate and the value resulting from the re-evaluation of client transactions based on market price. The counterparty’s credit risk is managed within the framework of general credit limit allocation and collateralisation principles and taken into account, with other cash and non-cash credit risks, using a holistic approach. Additionally, positions related to transactions causing counter party credit risk are followed under a separate risk limit. Limits and actualisations related to counterparty risk are followed with daily reports. Counter-trend risk is evaluated within the scope of counterparty risk management, counter-trend risk changes within the limits approved by clients and the Board of Directors based on regular reporting and executive management, and the Board of Directors is informed when necessary. In addition, probable changes in negative market conditions for clients and portfolios in general and regular stress tests, are evaluated using limits determine beforehand, and they are reported to executive management.

2. Analysis of counterparty credit risk (CCR) exposure by approach:

Current Period 31 December 2016	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure at default	Exposure at default post CRM	Risk Weighted Amount
Standardised Approach - CCR (For Derivatives)	977.151	385.416		1,4	1.362.573	647.179
Internal Model Method (for derivatives, repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)						
Simple Approach for Credit Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)						
Comprehensive Approach for Credit Risk Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					152.997	31.076
VaR for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					152.997	31.076
Total						678.255

3. Credit valuation adjustment (CVA) capital charge:

Current Period 31 December 2016	Exposure at default post CRM	Risk Weighted Amount
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) VaR component (Including the 3* multiplier)	-	-
(ii) Stressed VaR component (Including the 3* multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	1.362.573	240.822
Total subject to the CVA capital charge	1.362.573	240.822

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

4. Standard Approach - Counterparty Credit Risk (CCR) Exposures by Risk Class and Risk Weights:

Current Period 31 December 2016 Regulatory Portfolio / Risk weight	0%	10%	20%	50%	75%	100%	150%	Other	Total Credit Exposures(*)
Exposures to central governments or central banks	13.482	-	-	-	-	-	-	-	13.482
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to International organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	1.044.331	3.698	-	9.130	-	-	1.057.159
Exposures to corporates	-	-	-	-	-	439.886	-	-	439.886
Retail exposures	-	-	-	-	-	18.524	-	-	18.524
Exposures secured by residential property	-	-	-	-	-	-	-	-	-
Exposures secured by commercial real estate	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	13.482	-	1.044.331	3.698	-	467.540	-	-	1.529.051

(*) Total credit exposure: the amount relevant for the capital requirements calculation, having applied CRM techniques.

5. Composition of collateral for CCR exposure:

Current Period 31 December 2016	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	Received	Collateral
Cash – domestic currency	-	-	-	-	532.113	418.517
Cash – other currencies	-	-	-	-	-	3.954.478
Domestic sovereign debt	-	-	-	-	-	536.328
Other sovereign debt	-	-	-	-	4.410.193	-
Government agency bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collaterals	-	-	-	-	-	-
Total	-	-	-	-	4.942.306	4.909.323

6. Credit Derivatives

None.

7. Exposures to central counterparties

None.

e. Securitization Disclosures

None.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

f. Explanations on consolidated market risk

1. Qualitative disclosure on consolidated market risk

Market risk is defined as the risk of the decrease in value of the trading portfolio due to shifts in interest rate, currency, stock market, and commodity and option prices. To measure possible losses internally, in addition to taking into consideration the calculations made by the standard method in statutory reportings, the Parent Bank uses Value-at-Risk (VaR), Value at Risk under Stress (VaRS) and Additional Risk Capital Requirement (ARCR) models. The difference between the risk pointed by the internal models and the standard method is taken into account in the calculation of economic capital.

The Bank monitors market risk through daily currency option limits, maximum loss limits, portfolio size limits and sensitivity to interest (Present Value Basis Points - PVBP in the breakdown of portfolio, maturity and currency), in addition to VaR limits that are separately applied on the basis of portfolio and risk factor (interest, currency risk). Risk monitoring and control activities are carried out by independent units.

VaR is calculated by the historical simulation method by calibrating over the 500-day sample over the daily profit/loss data of the last two years, and scenarios are updated every two weeks. VaR is calculated on the basis of one-way confidence interval of 99% and a daily holding period. Backtesting is also performed daily to test the accuracy of the estimates VaR method consists. VaR under Stress is calculated on the basis of a holding period of 10 days, over data from the crisis period in 2008 upon the bankruptcy of Lehman Brothers. Additional Risk Capital Requirement represents the loss that can occur due to the possibility of a decrease in the credit worthiness of issuers of securities in the trading portfolio.

In addition to VaR and PVBP restrictions, Stress Tests are also being used to measure the potential effects of possible but extreme situations in various financial factors or market movements on the value of the portfolio. Stress Test results are assessed by the Senior Management in order to determine the effects of such incidents on the financials and to take necessary precautions to narrow down possible losses.

Market risk limits are evaluated by related senior management including the Risk Management Unit Manager, Market and Counterparty Risk Unit Manager, Finance Global Banking and Markets Unit Manager and Chief Executive of the Bank. Limits are reviewed at least once a year by the Market Risk Committee and presented to the Board of Directors for approval. Market Risk Committee can set a sublimit and can change the limits, with the main limits set by the Board of Directors remaining fixed.

Market risk limits and actualizations are tracked daily by management and business lines, are presented weekly to the Board of Directors, monthly to Asset-Liability Committee, Risk Management Committee, Audit Committee and Market Risk Committee.

2. Standardised Approach Related to Market Risk:

Current Period	Risk Weighted
31 December 2016	Amount
Outright Products	
Interest Rate Risk (general and specific)	375.886
Equity Risk (general and specific)	8.588
Foreign Exchange Risk	348.488
Commodity Risk	-
Options	
Simplified Approach	-
Delta-plus Method	3.613
Scenario Approach	-
Securitisation	-
Total	736.575

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

g. Explanations on operational risk

The amount subject to the operational risk is calculated once every year through the use of the gross income of the Bank in 2015, 2014 and 2013 in accordance to the "Regulation Regarding Measurement and Evaluation of the Bank's Capital Adequacy Ratio" published in the Official Gazette No.29511 dated 23 October 2015.

The annual gross income is composed of net interest income and net non-interest income after deducting realised gains/losses from the sale of securities available-for-sale and held-to-maturity, extraordinary income and income derived from insurance claims at year-end.

Current Period	31.12.2013	31.12.2014	31.12.2015	Total/Positive Year	Rate (%)	Total
Gross Income	1.891.417	1.722.512	1.725.241	1.779.723	15	266.958
Operational Risk Capital Requirement (total)*12.5						3.336.981

XII. EXPLANATIONS ON OPERATING SEGMENTS

The Parent Bank operates in retail banking, corporate investment banking, treasury and capital markets.

In the retail banking segment, the Parent Bank provides debit card, credit card, deposits, consumer loan, payment and collection, premier customer services, custodian services, financial planning, insurance products services. In corporate and commercial banking segment, the Parent Bank provides loans, commercial card, foreign trade financing, structured trading financing, project and export financing, syndications, custodian services, cash and risk management services. In the Corporate and Investment banking segment, the Parent Bank provides loan and investment services, commercial card, insurance products, cash and risk management services to its customers. Also the Parent Bank provides marketable securities transactions, gold and foreign exchange transactions, derivative transactions and money market transactions services to its customers.

	Retail Banking	Corporate and Investment Banking	Treasury and Capital Markets	Other	Group's Total Activities
Current Period – 31 December 2016					
Operating Income	932.284	445.559	291.258	-	1.669.101
Other	-	-	-	-	-
Operating Income	932.284	445.559	291.258	-	1.669.101
Segment Net Profit	-	-	-	-	-
Undistributed Cost	-	-	-	-	-
Operating Profit/(Loss)	(388.523)	(53.601)	205.637	(108.234)	(344.721)
Profit before Tax	(388.523)	(53.601)	205.637	(108.234)	(344.721)
Corporate Tax Provision(*)	-	-	-	(9.956)	(9.956)
Profit after Tax	(388.523)	(53.601)	205.637	(118.190)	(354.677)
Non-Controlling Interest	-	-	-	-	-
Net Profit for the Period	(388.523)	(53.601)	205.637	(118.190)	(354.677)
Segment Assets	6.173.414	12.676.924	5.559.302	-	24.409.640
Associates and Subsidiaries	-	-	-	270	270
Undistributed Assets	-	-	-	-	-
Total Assets	6.173.414	12.676.924	5.559.302	270	24.409.910
Segment Liabilities	11.743.513	8.150.144	81.301	4.434.952	24.409.910
Undistributed Liabilities	-	-	-	-	-
Total Liabilities	11.743.513	8.150.144	81.301	4.434.952	24.409.910
Other Segment Items	(141.247)	(8.167)	(3.284)	-	(152.698)
Capital Investment	-	-	-	-	-
Amortization	(36.608)	(8.167)	(3.233)	-	(48.008)
Impairment	-	-	(51)	-	(51)
Non-Cash Other Income-Expense (**)	(104.639)	-	-	-	(104.639)

(*) Corporate tax provision is not distributed.

(**) Non-Cash Other Income-Expense includes other income and expense accruals and provisions

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XII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

	Retail Banking	Corporate and Investment Banking	Treasury and Capital Markets	Other	Group’s Total Activities
Prior Period – 31 December 2015					
Operating Income	1.052.030	511.944	319.476	-	1.883.450
Other	-	-	-	-	-
Operating Income	1.052.030	511.944	319.476	-	1.883.450
Segment Net Profit	-	-	-	-	-
Undistributed Cost	-	-	-	-	-
Operating Profit	(544.341)	76.422	225.761	(19.748)	(261.906)
Profit before Tax	(544.341)	76.422	225.761	(19.748)	(261.906)
Corporate Tax Provision(*)	-	-	-	(63.165)	(63.165)
Profit after Tax(**)	(544.341)	76.422	225.761	(82.913)	(325.071)
Non-Controlling Interest	-	-	-	-	-
Net Profit for the Period	(544.341)	76.422	225.761	(82.913)	(325.071)
Segment Assets	8.205.524	13.457.128	10.009.924	-	31.672.576
Associates and Subsidiaries	-	-	-	270	270
Undistributed Assets	-	-	-	-	-
Total Assets	8.205.524	13.457.128	10.009.924	270	31.672.846
Segment Liabilities	18.864.039	5.388.985	7.419.822	-	31.672.846
Undistributed Liabilities	-	-	-	-	-
Total Liabilities	18.864.039	5.388.985	7.419.822	-	31.672.846
Other Segment Items	(66.887)	(9.397)	(4.796)	-	(81.080)
Capital Investment	-	-	-	-	-
Amortization	(43.860)	(9.397)	(3.548)	-	(56.805)
Impairment	(83.450)	-	(1.248)	-	(84.698)
Non-Cash Other Income-Expense (**)	60.423	-	-	-	60.423

(*) Corporate tax provision is not distributed.

(**) Non-Cash Other Income-Expense includes other income and expense accruals and provisions.

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SECTION FIVE

EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS

a. Information related to cash equivalents and the balances with Central Bank of the Republic of Turkey (the “CBRT”):

1. Information on cash equivalents and the account of the CBRT:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Cash/Foreign Currency	133.024	118.411	217.225	216.614
The CBRT	46.713	1.452.877	114.993	2.831.815
Other (*)	-	17.895	280	13.547
Total	179.737	1.589.183	332.498	3.061.976

(*) As of 31 December 2016, account of Precious Metal is amounting to TL 17.895 (31 December 2015: TL 13.547) and the Bank has no money in transit (31 December 2015: TL 280).

2. Information related to the account of the CBRT:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Unrestricted Demand Deposit	46.713	2.184	114.993	1.444
Unrestricted Time Deposits	-	-	-	-
Restricted Time Deposits	-	-	-	-
Reserve Requirements	-	1.450.693	-	2.830.371
Total	46.713	1.452.877	114.993	2.831.815

3. Explanations on reserve requirements:

The banks operating in Turkey are subject to the Central Bank of the Republic of Turkey’s Communiqué numbered 2005/1 and are required to keep a deposit at the CBRT for their Turkish Lira, USD and/or Euro and standard gold.

As of 31 December 2016, the reserve deposit rates vary according to their maturity structure; the reserve deposit rates are realized between 4% - 10,50% (31 December 2015: 5% - 11,50%), for TL deposits and other liabilities, and between 4,50% - 10,50% for FC deposits (31 December 2015: 5% - 11,5%).

b. Information on financial assets at fair value through profit or loss:

1. Financial assets given as collateral/blocked and subject to repurchase agreements:

	Current Period 31 December 2016	Prior Period 31 December 2015
	Collateral/Blocked	10.807
Repurchase Agreement	-	245.434
Unrestricted	87.202	650.837
Total	98.009	1.020.833

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)

2. Positive differences table related to trading derivative financial assets:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Forward Transactions	69.443	16.269	28.508	52.167
Swap Transactions	525.092	142.442	339.911	177.089
Futures Transactions	-	-	-	-
Options	-	154.562	-	53.759
Other	-	-	-	-
Total	594.535	313.273	368.419	283.015

c. Information on banks:

1. Information on banks and other financial institutions:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Banks				
Domestic	39.950	1	19.896	344.449
Foreign	42.060	877.826	58.389	92.914
Foreign Head Office and Branches	-	-	-	-
Total	82.010	877.827	78.285	437.363

2. Information on foreign banks balances:

	Unrestricted Amount		Restricted Amount	
	Current Period 31 December 2016	Prior Period 31 December 2015	Current Period 31 December 2016	Prior Period 31 December 2015
European Union Countries	104.728	2.561	-	-
USA, Canada	666.856	46	-	-
OECD Countries (*)	47	304	-	-
Off-Shore Banking Regions	80	376	-	-
Other	985	854	147.190	147.162
Total	772.696	4.141	147.190	147.162

(*) OECD countries other than EU countries, USA and Canada.

d. Information on financial assets available-for-sale:

1. Financial assets given as collateral/blocked and subject to repurchase agreements:

	Current Period 31 December 2016	Prior Period 31 December 2015
Collateral/Blocked	683.332	6.430
Repurchase Agreement	536.123	546.167
Unrestricted	45.016	101.680
Total	1.264.471	654.277

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)

2. Information on available-for-sale financial assets:

	Current Period 31 December 2016	Prior Period 31 December 2015
Debt Securities	1.257.091	628.321
Quoted to Stock Exchange	1.257.091	628.321
Not Quoted	-	-
Share Certificate	8.002	29.795
Quoted to Stock Exchange	-	-
Not Quoted	8.002	29.795
Impairment Provision (-)	622	3.839
Total	1.264.471	654.277

e. Information related to loans:

1. Information on all types of loans and advances given to shareholders and employees of the Group:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	Cash	Non-cash	Cash	Non-cash
Direct Loans Granted to Shareholders	-	81.777	-	214.994
Corporate Shareholders	-	81.777	-	214.994
Real Person Shareholders	-	-	-	-
Indirect Loans Granted to Shareholders	7.404	463.715	20.399	523.499
Loans Granted to Employees	14.478	-	22.321	-
Total	21.882	545.492	42.720	738.493

2. Information on 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	Agreement Terms Modified		Loans and Other Receivables	Agreement Terms Modified	
		Payment Plan Extensions	Other		Payment Plan Extensions	Other
	Non-specialised Loans	12.611.027	545.934	-	667.611	359.668
Commercial Loans	5.904.926	457.569	-	348.337	279.034	-
Export Loans	215.238	8.294	-	45.943	-	-
Import Loans	-	-	-	-	-	-
Loans Granted to Financial Sector	314.722	-	-	-	-	-
Consumer Loans	2.429.323	1.824	-	140.840	5.303	-
Credit Cards	2.615.937	76.483	-	122.106	75.107	-
Other (*)	1.130.881	1.764	-	10.385	224	-
Specialised Loans	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-
Total	12.611.027	545.934	-	667.611	359.668	-

(*) Includes the factoring receivables amounting to TL 476.308.

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)

Number of Modifications Made to Extend Payment Plan	Standard Loans and Other Receivables	Loans and Other Receivables under Close Monitoring
Extended by 1 or 2 times	543.616	359.668
Extended by 3, 4 or 5 times	2.318	-
Extended by more than 5 times	-	-
Total	545.934	359.668

Extended period of time	Standard Loans and Other Receivables	Loans and Other Receivables under Close Monitoring
0 – 6 Months	38.415	8.748
6 – 12 Months	22.324	8.086
1 – 2 Years	241.077	46.900
2 – 5 Years	221.381	126.252
5 Years or More	22.737	169.682
Total	545.934	359.668

3. Breakdown of loans according to their maturities:

	Standard Loans and Other Receivables		Loans and Other Receivables under Close Monitoring	
	Loans and Other Receivables	Restructured or Rescheduled	Loans and Other Receivables	Restructured or Rescheduled
Short-Term Loans and Other Receivables	6.145.965	137.223	247.048	91.257
Non-Specialized Loans (*)	6.145.965	137.223	247.048	91.257
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-
Medium and Long-Term Loans and Other Receivables	6.465.062	408.711	420.563	268.411
Non-Specialized Loans	6.465.062	408.711	420.563	268.411
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-

(*) Includes the factoring receivables amounting to TL 476.308.

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)

4. Information on consumer loans, personal credit cards, personnel loans and personnel credit cards:

	Short-term	Medium and Long-term	Total
Consumer Loans-TL	37.479	2.224.131	2.261.610
Mortgage Loans	1.087	1.002.126	1.003.213
Automotive Loans	-	5.337	5.337
Consumer Loans	36.392	1.209.849	1.246.241
Other	-	6.819	6.819
Consumer Loans- Indexed to FC	-	1.288	1.288
Mortgage Loans	-	1.281	1.281
Automotive Loans	-	-	-
Consumer Loans	-	7	7
Other	-	-	-
Consumer Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	2.717.924	152.296	2.870.220
Instalment	952.091	152.296	1.104.387
None Instalment	1.765.833	-	1.765.833
Individual Credit Cards-FC	7.068	-	7.068
Instalment	-	-	-
None Instalment	7.068	-	7.068
Personnel Loans-TL	894	8.589	9.483
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	894	8.589	9.483
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	4.922	-	4.922
Instalment	1.939	-	1.939
None Instalment	2.983	-	2.983
Personnel Credit Cards-FC	73	-	73
With Instalment	-	-	-
Without Instalment	73	-	73
Overdraft Account-TL (Individual)	304.909	-	304.909
Overdraft Account-FC (Individual)	-	-	-
Total Consumer Loans	3.073.269	2.386.304	5.459.573

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)

5. Information on commercial instalment loans and corporate credit cards:

	Short-term	Medium and Long-term	Total
Commercial Installment Loans-TL	5.509	222.116	227.625
Mortgage Loans	-	2.899	2.899
Automotive Loans	-	2.212	2.212
Consumer Loans	5.509	217.005	222.514
Other	-	-	-
Commercial Installment Loans- Indexed to FC	8.099	133.510	141.609
Mortgage Loans	-	7.018	7.018
Automotive Loans	-	5.494	5.494
Consumer Loans	8.099	120.998	129.097
Other	-	-	-
Commercial Installment Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	6.860	1	6.861
With Installment	1.145	1	1.146
Without Installment	5.715	-	5.715
Corporate Credit Cards-FC	489	-	489
With Installment	-	-	-
Without Installment	489	-	489
Overdraft Account-TL (Commercial)	19.293	-	19.293
Overdraft Account-FC (Commercial)	-	-	-
Total	40.250	355.627	395.877

6. Loans according to types of borrowers:

	Current Period 31 December 2016	Prior Period 31 December 2015
Public	-	-
Private (*)	14.184.240	20.619.889
Total	14.184.240	20.619.889

(*) Includes the factoring receivables amounting to TL 476.308 (31 Aralık 2015: TL 584.068).

7. Distribution of domestic and foreign loans (*):

	Current Period 31 December 2016	Prior Period 31 December 2015
Domestic Loans	13.724.606	20.112.061
Foreign Loans	459.634	507.828
Total	14.184.240	20.619.889

(*) Includes the factoring receivables amounting to TL 476.308 (31 December 2015: TL 584.068).

8. Loans granted to investments in associates and subsidiaries:

As of 31 December 2016 and 31 December 2015, the Bank has no loans granted to investments in associates and subsidiaries.

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)

9. Specific provisions for loans:

	Current Period 31 December 2016	Prior Period 31 December 2015
Loans and Receivables with Limited Collectability	28.491	31.486
Loans and Receivables with Doubtful Collectability	111.688	145.851
Uncollectible Loans and Receivables	841.159	608.665
Total	981.338	786.002

10. Information on non-performing loans (Net):

10 (i). Information on non-performing loans and other receivables restructured or rescheduled:

	III. Group Loans and Other Receivables with Limited Collectability	IV. Group Loans and Other Receivables with Doubtful Collectability	V. Group Uncollectible Loans and Other Receivables
Current Period: 31 December 2016			
(Gross Amounts Before Specific Provisions)	28.986	8.396	11.437
Restructured Loans and Other Receivables	28.986	8.396	11.437
Rescheduled Loans and Other Receivables	-	-	-
Prior Period: 31 December 2015	2.812	10.185	16.941
(Gross Amounts Before Specific Provisions)	2.812	10.185	16.941
Restructured Loans and Other Receivables	-	-	-

10 (ii). Information on the movement of total non-performing loans:

	III. Group Loans and Other Receivables with Limited Collectability	IV. Group Loans and Other Receivables with Doubtful Collectability	V. Group Uncollectible Loans and Other Receivables
Balance at the end of Prior Period: 31 December 2015	175.867	319.357	749.861
Additions (+)	730.820	4.242	10.160
Transfers from Other Categories of Non-Performing Loans (+)	4.649	650.327	580.590
Transfers to Other Categories of Non-Performing Loans (-)	655.046	576.984	3.536
Collections (-)	69.815	119.578	83.343
Write-offs (-) (*)	-	20.129	266.476
Corporate and Commercial Loans	-	2.489	100.582
Retail Loans	-	5.493	56.879
Credit Cards	-	12.147	109.015
Other	-	-	-
Balance at the End of the Period: 31 December 2016	186.475	257.235	987.256
Specific Provisions (-)	28.491	111.688	841.159
Net Balance on Balance Sheet	157.984	145.547	146.097

(*) The bank has concluded the sale of non performing consumer loans and credit cards amounting to TL 179.676 for TL 21.227 and non performing corporate and commercial loans amounting TL 106.929 for TL 20.100 in 2016.

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)

10 (iii). Information on non-performing loans granted as foreign currency loans:

	III. Group Loans and Other Receivables with Limited Collectability	IV. Group Loans and Other Receivables with Doubtful Collectability	V. Group Uncollectible Loans and Other Receivables
Current Period: 31 December 2016			
Balance at the End of the Period	-	-	165
Specific Provisions (-)	-	-	66
Net Balance on Balance Sheet	-	-	99
Prior Period: 31 December 2015			
Balance at the End of the Period	-	-	330
Specific Provisions (-)	-	-	115
Net Balance on Balance Sheet	-	-	215

10 (iv). Breakdown of gross and net values of the non-performing loans according to their beneficiary group:

	III. Group Loans and Other Receivables with Limited Collectability	IV. Group Loans and Other Receivables with Doubtful Collectability	V. Group Uncollectible Loans and Other Receivables
Current Period (Net): : 31 December 2016			
Loans granted to corporate entities and real persons (Gross)	186.475	257.235	987.256
Specific Provisions Amount (-)	28.491	111.688	841.159
Loans granted to corporate entities and real persons (Net)	157.984	145.547	146.097
Banks (Gross)	-	-	-
Specific Provisions Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Advances (Gross)	-	-	-
Specific Provisions Amount (-)	-	-	-
Other Loans and Advances (Net)	-	-	-
Prior Period (Net): 31 December 2015	144.381	173.506	141.196
Loans granted to corporate entities and real persons (Gross)	175.867	319.357	749.861
Specific Provisions Amount (-)	31.486	145.851	608.665
Loans granted to corporate entities and real persons (Net)	144.381	173.506	141.196
Banks (Gross)	-	-	-
Specific Provisions Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Advances (Gross)	-	-	-
Specific Provisions Amount (-)	-	-	-
Other Loans and Advances (Net)	-	-	-

11. Information on the collection policy of non-performing loans and other receivables:

For uncollectible loans, primarily, a reach for an agreement with the company and third parties (natural and/or legal) having guarantees subject to the risk is being sought and actions either aimed at liquidation of collateral in the loan risk warranty or aimed at proceedings without judgement are taken. In case of obtaining no result in consequence of these actions, liquidation subject to requirements within the framework of legal regulations designated by the Parent Bank's top management occurs.

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I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)

12. Explanations on the write-off policy of the Parent Bank:

The general policy of the Parent Bank is oriented to the collection, whereas written off is applied exceptionally.

f. Investments held-to-maturity:

1. Information on financial assets and given as collateral/blocked subject to repurchase agreements:

As of 31 December 2016 and 31 December 2015, the Group has no investment held to maturity given as collateral/blocked and subject to repurchase agreements.

2. Information on government debt securities held-to-maturity:

As of 31 December 2016 and 31 December 2015, the Group has no investments as government debt securities held to maturity.

3. Information on investment held-to-maturity is:

As of 31 December 2016 and 31 December 2015, the Group has no investments held to maturity.

4. The movement of investment securities Held-to-maturity:

As of 31 December 2016 and 31 December 2015, the Group has no investments of held to maturity movement.

g. Information on associates (Net):

The Group has no associates as of 31 December 2016 and 31 December 2015.

h. Information on subsidiaries (Net):

1. Information on capital adequacy of major subsidiaries:

The Bank does not have any capital needs due to its subsidiaries included in the calculation of its consolidated capital adequacy standard ratio. Information on capital adequacy of major subsidiaries is presented below.

	HSBC Yatırım ve Menkul Değerler A.Ş.(*)
Core Capital	95.195
Paid-in Capital	7.000
Share Premium	-
Reserves	44.180
Current Period's Profit and Prior Periods' Profit	42.892
Current Period's Losses and Prior Periods' Losses	-
Leasehold Improvements on Operational Leases (-)	-
Intangible Assets (-)	(299)
Supplementary Capital	-
Deductions from Capital	-
Net Available Equity	93.773

(*) Prepared with the audited financial statements as of 31 December 2016.

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I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)

2. Information on unconsolidated/subsidiaries:

a) Unconsolidated subsidiaries:

Title	Address (City/Country)	The Parent Bank’s share percentage – If different voting percentage (%)	Bank’s risk group share percentage (%)
1 HSBC Ödeme Sistemleri ve Bilgisayar Esentepe Mahallesi Büyükdere Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş.	Caddesi No:128 Şişli 34394, İSTANBUL	100,00	0,00
2 HSBC İnternet ve Telekomunikasyon Hizmetleri A.Ş.	Esentepe Mahallesi Büyükdere Caddesi No:128 Şişli 34394, İSTANBUL	96,00	4,00

b) Main financial figures of the subsidiaries, in the order of the above table (*):

	Total Assets	Shareholders’ Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1	3.248	3.274	-	-	-	1.319	1.365	-
2	15	11	-	-	-	(13)	(14)	-

(*) Prepared with non-audited financial statements as of 31 December 2016.

3. Information on the consolidated subsidiaries:

HSBC Yatırım was established as Demir Yatırım on 23 December 1996. The merger of the Demir Yatırım and HSBC Yatırım was realized and the merger agreement was signed, with the Board of Directors decision No. 222 and dated 6 December 2001 based on the authority given to the Board of Directors in accordance with General Assembly decision dated 30 October 2001. Also dissolution of HSBC Yatırım and change of the title of the new merged company to HSBC Yatırım Menkul Değerler A.Ş. was agreed to and the merger of these two companies was accomplished as of 11 January 2002.

a) Consolidated subsidiaries:

Title	Address (City/Country)	Bank’s share percentage – If different voting percentage (%)	Bank’s risk group share percentage (%)
1 HSBC Yatırım ve Menkul Değerler A.Ş.	Esentepe Mahallesi Büyükdere Caddesi No:128 Şişli 34394, İSTANBUL	99,87	0,13

b) Main financial figures of subsidiaries, in the order of the below table (*):

	Total Assets	Shareholders’ Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss (*)	Fair Value
1	108.074	95.196	1.113	5.883	2.525	21.822	21.070	-

(*) Prepared with audited financial statements as of 31 December 2016.

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I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)

4. Movement schedule of the consolidated subsidiaries:

	Current Period 31 December 2016	Prior Period 31 December 2015
Balance at the Beginning of the Period	34.753	34.753
Movements During the Period		
Purchases	-	-
Bonus Shares and Contributions to Capital	-	-
Dividends From Current Year Profit	-	-
Sales/Liquidation	-	-
Revaluation Increase	-	-
Increase /decrease of valuation	-	-
Balance at the End of the Period	34.753	34.753
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	99,87	99,87

5. Sectoral information on financial subsidiaries and the related carrying amounts:

	Current Period 31 December 2016	Prior Period 31 December 2015
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	-	-
Other Financial Subsidiaries	34.753	34.753

6. Subsidiaries quoted on a stock exchange:

The Group has no subsidiaries quoted on a stock exchange as of 31 December 2016 and 31 December 2015.

i. Information on jointly controlled entities:

1. The Group has no jointly controlled entities as of 31 December 2016 and 31 December 2015.
2. As of 31 December 2016 and 31 December 2015, the accounting method is not determined since the Group has no jointly controlled entities.

j. Information on financial lease receivables (Net):

As of 31 December 2016 and 31 December 2015, the Group has no finance leases.

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I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)

k. Explanations on hedging derivative financial assets:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Fair Value Hedge	-	-	-	-
Cash Flow Hedge	69.454	-	20.666	-
Foreign Net Investment Hedge	-	-	-	-
Total	69.454	-	20.666	-

l. Explanations on property and equipment:

	Land and Buildings	Vehicles	Other Tangible Fixed Assets	Total
Prior Period End:				
Cost	22.733	667	767.227	790.627
Accumulated Depreciation and Impairment (-)	13.872	654	688.535	703.061
Net book value	8.861	13	78.692	87.566
Current Period End:				
Net Book Value at the Beginning	8.861	13	78.692	87.566
Additions	-	-	30.759	30.759
Disposals (-) (net)	-	-	9.354	9.354
Depreciation (-)	399	7	26.966	27.372
Cost at Period End	22.733	667	788.632	812.032
Accumulated Depreciation at Period End (-)	14.271	661	715.501	730.433
Closing net book value	8.462	6	73.131	81.599

m. Explanations on intangible assets:

1. Gross book value and accumulated depreciation amounts at the beginning and ending of the period:

	Current Period 31 December 2016	Prior Period 31 December 2015
Gross book value	435.656	321.709
Accumulated depreciation(-)	307.656	287.179
Net Book Value	128.000	34.530

2. Table of movements between beginning of the period and ending of the period:

	Current Period 31 December 2016	Prior Period 31 December 2015
Opening balance	34.530	119.268
Additions	114.034	19.337
Disposals (-) (net)	-	-
Depreciation (-)	20.564	104.075
Closing Net Book Value	128.000	34.530

(*) Includes basic banking infrastructure investment costs made in 2016.

n. Explanations on the investment properties:

As of 31 December 2016 and 31 December 2015, the Group has no investment properties.

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I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)

o. Explanations on deferred tax asset:

Group’s deferred tax assets as of 31 December 2016 are explained in Note XVIII of Section Three.

	Cumulative		Deferred Tax Asset/Liability	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Fiscal Loss	667.046	434.480	133.409	86.896
Unearned Revenues	68.384	156.672	13.677	31.334
Other	382.434	161.065	76.487	32.213
Deferred Tax Asset	1.117.864	752.217	223.573	150.443
Derivative Transactions Fair Value Difference	(333.446)	(332.403)	(66.689)	(66.481)
Other	(21.957)	(26.525)	(4.391)	(5.305)
Deferred Tax Liability	(355.403)	(358.928)	(71.080)	(71.786)
Deferred Tax Asset recognized as expense (*)			(152.493)	(78.657)
Net Tax Asset			813	1.030

(*) Information of deferred tax asset of the Group as of 31 December 2016 is explained under Section Three XVIII nr. Footnote.

p. Explanations on assets held for sale and assets related to discontinued operations:

As of 31 December 2016, assets held for sale of the Group is TL 2.742 (31 December 2015: TL 3.444).

	Current Period 31 December 2016	Prior Period 31 December 2015
Prior Period End:		
Cost	3.594	3.321
Accumulated Depreciation (-)	150	142
Net Book Value	3.444	3.179
Current Period End:		
Net Book Value at the Beginning	3.444	3.179
Additions	1.299	1.729
Disposals (-) (net)	1.998	1.456
Depreciation (-)	4	8
Cost at Period End	2.896	3.594
Accumulated Depreciation at Period End (-)	154	150
Closing Net Book Value	2.742	3.444

r. Information on other assets:

1. There are no further explanations of the Group related to prepaid expenses, tax and other operations.

	Current Period 31 December 2016	Prior Period 31 December 2015
Debited Suspense Accounts	57.308	114.474
Prepaid Expenses	37.394	42.695
Other Rediscount Income	12.312	13.925
Miscellaneous Receivables	6.004	129.038
Other Assets	4.360	6.503
Total	117.378	306.635

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s. Information on receivables from forward sale of the assets classified in the miscellaneous receivables:

As of 31 December 2016 and 31 December 2015, the Group has no receivables from forward sale of the assets classified in the miscellaneous receivables.

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES

a. Information on deposits

1. Information on maturity structure of the deposits:

The Group has no deposits with 7 days maturity and no cumulative deposits.

1 (i). Current Period – 31 December 2016:

	Demand	With 7 Days Maturity	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 Months -1 Year	1 Year and Over	Cumulative Deposit	Total
Saving Deposits	415.452	-	1.053.445	2.991.576	115.186	39.997	24.754	-	4.640.410
Foreign Currency Deposits	1.986.054	-	2.108.789	4.166.221	349.110	101.985	51.285	-	8.763.444
Residents in Turkey	1.665.892	-	1.769.199	3.582.843	303.834	74.175	17.790	-	7.413.733
Residents Abroad	320.162	-	339.590	583.378	45.276	27.810	33.495	-	1.349.711
Public Sector Deposits	19.967	-	-	-	-	-	-	-	19.967
Commercial Deposits	378.363	-	747.151	14.156	704	1.631	174	-	1.142.179
Other Institutions Deposits	5.917	-	1.168	4.055	-	-	-	-	11.140
Precious Metal Deposit	297.233	-	5.623	69.462	1.795	3.100	-	-	377.213
Bank Deposits	123.171	-	44.548	-	-	-	-	-	167.719
The CBRT	-	-	-	-	-	-	-	-	-
Domestic Banks	-	-	-	-	-	-	-	-	-
Foreign Banks	123.171	-	44.548	-	-	-	-	-	167.719
Participation Banks	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	3.226.157	-	3.960.724	7.245.470	466.795	146.713	76.213	-	15.122.072

1 (ii). Prior Period - 31 December 2015:

	Demand	With 7 Days Maturity	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 Months -1 Year	1 Year and Over	Cumulative Deposit	Total
Saving Deposits	492.572	-	1.399.599	4.450.241	133.484	57.572	45.617	-	6.579.085
Foreign Currency Deposits	2.027.260	-	2.271.819	5.305.202	170.326	108.298	63.515	-	9.946.420
Residents in Turkey	1.711.142	-	-	4.731.113	118.768	81.121	25.484	-	8.798.162
Residents Abroad	316.118	-	141.285	574.089	51.558	27.177	38.031	-	1.148.258
Public Sector Deposits	94.439	-	-	-	-	-	-	-	94.439
Commercial Deposits	427.419	-	961.895	604.159	3.336	4.430	3.786	-	2.005.025
Other Institutions Deposits	20.840	-	2.657	13.598	104	45	76	-	37.320
Precious Metal Deposit	236.379	-	-	34.716	1.824	3.653	153	-	276.725
Bank Deposits	58.240	-	19.521	-	-	-	-	-	77.761
The CBRT	-	-	-	-	-	-	-	-	-
Domestic Banks	8.898	-	19.521	-	-	-	-	-	28.419
Foreign Banks	49.342	-	-	-	-	-	-	-	49.342
Participation Banks	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	3.357.149	-	4.655.491	10.407.916	309.074	173.998	113.147	-	19.016.775

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II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (Continued)

2. Information on saving deposits insurance:

2 (i). Information on saving deposits under the guarantee of the Saving Deposits Insurance Fund and amounts exceeding the limit of the deposit insurance fund:

	Covered by Insurance		Exceeding Deposit Insurance Limit	
	Current Period 31 December 2016	Prior Period 31 December 2015	Current Period 31 December 2016	Prior Period 31 December 2015
Saving Deposits	2.477.436	3.691.680	2.090.596	2.772.740
Foreign Currency Saving Deposits	1.492.801	1.807.137	4.691.126	5.124.312
Other Deposits in the Form of Saving Deposits	14.779	12.621	67.541	55.859
Foreign Branches' Deposits under				
Foreign Authorities' Insurance Coverage	138.418	157.247	145.670	165.793
Off-Shore Banking Regions' Deposits under Foreign Authorities' Insurance Coverage	-	-	-	-
Total	4.123.434	5.668.685	6.994.933	8.118.704

2 (ii). Since the head office of the Parent Bank is not located abroad, saving deposits in Turkey are covered by the saving deposits insurance.

2 (iii). Saving deposits of individuals which are not covered by the Saving Deposit Insurance Fund:

	Current Period 31 December 2016	Prior Period 31 December 2015
Foreign Branches' Deposits and other accounts	145.670	165.793
Saving Deposits and Other Accounts of Major Shareholders and Deposits of their Mother, Father, Spouse, Children under their wordship	-	-
Saving Deposits and Other Accounts of President and Members of Board of Directors, CEO and Vice Presidents and Deposits of their Mother, Father, Spouse, Children under their wordship	-	9.096
Saving Deposits and Other Accounts in Scope of the Property Holdings Derived from Crime Defined in Article 282 of Turkish Criminal Law No:5237 dated 26/09/2004	-	-
Saving Deposits in Deposit Bank Which Established in Turkey in Order to Engage in Off-shore Banking Activities Solely	-	-

b. Information on trading derivative financial liabilities:

Table of negative differences for trading derivative financial liabilities:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Forward Transactions	295	136.791	16.306	61.093
Swap Transactions	24.292	351.152	83.613	141.810
Future Transactions	-	-	-	-
Options	-	154.728	-	54.346
Other	-	-	-	-
Total	24.587	642.671	99.919	257.249

c. Information on funds provided under repurchase agreements:

As of 31 December 2016, the Group has funds provided under repurchase agreements amounting to TL 531.938 (31 December 2015: TL 790.709).

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d. Information on funds borrowed:

1. Information on banks and other financial institutions:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Borrowings from the CBRT	-	-	-	-
From Domestic Bank and Institutions	1.524	4.166	9.650	2.919
From Foreign Banks, Institutions and Funds	211.107	2.124.212	612.735	4.726.289
Total	212.631	2.128.378	622.385	4.729.208

2. Information on maturity structure of funds borrowed:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Short-term	1.524	7.337	9.650	336.084
Medium and Long-term	211.107	2.121.041	612.735	4.393.124
Total	212.631	2.128.378	622.385	4.729.208

3. Further information is disclosed for the areas of liability concentrations:

The Group diversifies funding sources with customer deposits and borrowings from foreign countries.

e. Information on other liabilities:

Other liabilities of the Group do not exceed 10% of the total liabilities.

f. Information on leasing agreements:

1. Explanations on obligations under financial leases:

None (31 December 2015: None).

2. Explanations on operational lease:

The Parent Bank makes a contract which is operating lease agreement for its some branches and ATMs. Lease agreements are made on an annual basis and annual lease payment is paid in advance. The payment is accounted under prepaid expenses of “Other Assets” account.

Maturity structure of prepaid rents due to operational lease transactions is presented below.

	Current Period 31 December 2016	Prior Period 31 December 2015
Less Than 1 Year	16.196	31.372
Between 1- 4 Years	5.963	13.624
More Than 4 Years	2.743	2.978
Total	24.902	47.974

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g. Information on derivative financial liabilities for hedging purposes:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Fair Value Hedges	-	-	-	-
Cash Flow Hedges	-	-	10.800	-
Hedge of net investment in foreign operations	-	-	-	-
Total	-	-	10.800	-

h. Information on provisions:

1. Information on general provisions:

	Current Period 31 December 2016	Prior Period 31 December 2015
General Provisions	412.254	457.075
Provisions for First Group Loans and Receivables	290.468	325.078
Additional Provision for Loans and Receivables with Extended Maturities	14.896	22.606
Provisions for Second Group Loans and Receivables	44.003	30.017
Additional Provision for Loans and Receivables with Extended Maturities	14.353	16.083
Provisions for Non-Cash Loans	22.096	43.194
Other	26.438	20.097

2. Information on employee benefit provisions:

As of 31 December 2016 the Group has employee termination benefit provision amounting to TL 49.779 (31 December 2015: TL 55.220), and unused vacation provision amounting to TL 6.524 (31 December 2015: TL 6.204).

In accordance with existing Turkish Labour Law, the Group is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or as mentioned in related legislation.

The computation of the liability is based upon the retirement pay ceiling announced. The applicable ceiling amount as of 31 December 2016 is TL 4.297,21 (full TL) (31 December 2015: TL 3.828,37 (full TL)). Employee termination benefit liability is not legally dependent on any kind of funding, and there is no requirement on funding.

The reserve for employment termination benefits represents the present value of the estimated total liability for the future probable obligation of the Group determined by using certain actuarial assumptions. TAS 19 requires actuarial valuation methods to be used in order to calculate Bank’s liabilities.

The assumption is that retirement pay ceiling is expected to increase as per the inflation rate every year. Thus discount rate applied shall represent real rate, net of inflation. Since retirement pay ceiling amount is determined once every six months, employee benefit liability of the Bank is calculated from the ceiling amount valid from 1 January 2016, TL 4.297,21 (full TL) (31 December 2015: TL 3.828,37 (full TL)).

	Current Period 31 December 2016	Prior Period 31 December 2015
Balances at End of Prior Period	55.220	29.113
Provision booked in current period	39.648	35.010
Reversal of previous year provision (-)	2.034	-
Provision paid in current period (-)	43.055	8.903
Balances at End of the Period	49.779	55.220

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2. Information on employee benefit provisions (continued):

	Current Period 31 December 2016	Prior Period 31 December 2015
As of January 1	55.220	29.113
Service Cost	26.963	7.590
Interest Cost	4.963	2.490
Actuarial Gain/(Loss)	5.688	24.930
Paid in Current Period	(43.055)	(8.903)
Total	49.779	55.220

3. Information on provisions related to foreign currency difference of foreign indexed loans and finance lease receivables

As of 31 December 2016, the provision related to foreign currency difference on the principles of foreign currency indexed loans, amounting to TL 47 (31 December 2015: TL 16.676), is offset with the balance of foreign currency indexed loans.

4. Information on specific provision for non-cash loans that is non-funded and non-transformed into cash:

As of 31 December 2016, provision for non-cash loans that are non-funded and non-transformed into cash is amounting to TL 15.142 (31 December 2015: TL 174).

5. Information on other provisions:

5 (i). Information on free provisions for possible risks:

As of 31 December 2016, the Group has TL 69.475 of free provisions for possible risks (31 December: None) and this amount consists of free provisions made for possible risks that the Bank can incur in the future due to several loans within the Group’s loan portfolio.

5 (ii). The names and amounts of sub-accounts of other provision under the condition of other provisions exceed 10% of total provisions:

	Current Period 31 December 2016	Prior Period 31 December 2015
Unpaid cheques received on time	16.562	24.157
Provision for lawsuits	26.479	13.761
Provision for accumulated credit card bonus	6.200	6.270
Return provision of case file expenses	3.047	4.111
Specific provision for non-cash loans that are non-funded and non-transformed into cash	15.142	174
Other provisions (*)	240.749	24.918
Total	308.179	73.391

(*) The Group recognized a provision of TL 127 thousand as of 31 December 2016 for the predicted restructuring costs associated with the restructuring plan for which the details are given in Note II of Section One. In addition, “Other Provisions” include free provisions, amounting to TL 69.475 (31 December 2015: None), made for possible risks that the Group can incur in the future due to the Group’s loan portfolio.

i. Explanations on tax liability:

1. Explanations on current tax liability:

The corporate tax provisions calculation of the Group is explained in Note XVIII of Section Three.

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II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (Continued)

1(i). Information on taxes payable:

	Current Period 31 December 2016	Prior Period 31 December 2015
Corporate Taxes Payable	1.665	2.415
Taxation on Marketable Securities	10.957	14.153
Capital Gains Tax on Property	805	1.162
Banking Insurance Transaction Tax (BITT)	11.532	13.581
Foreign Exchange Transaction Tax	13	14
Value Added Tax Payable	1.366	2.035
Other (*)	11.393	12.803
Total	37.731	46.163

(*) As of 31 December 2016, other taxes payable account consists of payroll tax amounting to TL 9.836 (31 December 2015: TL 10.171), stamp tax amounting to TL 280 (31 December 2015: TL 273), other taxes amounting to TL 1.096 (31 December 2015: TL 2.352), and self-employed income tax amounting to TL 2 (31 December 2015: TL 7).

1 (ii). Information on premium payables:

	Current Period 31 December 2016	Prior Period 31 December 2015
Social Security Premiums – Employee	2.959	3.496
Social Security Premiums – Employer	3.344	3.953
Bank Social Aid Pension Fund Premium – Employee	-	-
Bank Social Aid Pension Fund Premium – Employer	-	-
Pension Fund Membership Fees and Provisions – Employee	-	-
Pension Fund Membership Fees and Provisions – Employer	-	-
Unemployment Insurance – Employee	219	258
Unemployment Insurance – Employer	437	546
Other	-	-
Total	6.959	8.253

2. Information on deferred tax liability:

Information on the Group’s deferred tax liability as of 31 December 2016 is explained in Note XVIII of Section Three.

j. Information on liabilities regarding assets held for sale and discounted operations:

As of 31 December 2016 and 31 December 2015, the Group has no liabilities regarding assets held for sale and discontinued operations.

k. Explanations on the number of subordinated loans the Parent Bank used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any:

The Parent Bank has renewed previously obtained subordinated loans from HSBC Holdings Plc amounting to USD 275.000 and from HSBC Finance amounting to USD 39.000 and EUR 120.000 with 10 years maturity and USD Libor + 4,48% interest rate and Euro Libor + 4,48% interest rate in accordance with the permit from BRSA No.20008792 dated 26 December 2015 and the decision taken in the Board of Directors No. 13189 dated 31 December 2014.

As of 22 December 2015, the Parent Bank has obtained a subordinated loan from HSBC Finance amounting to USD 100.000 with 10 years maturity and USD Libor + 6,87% interest rate in accordance with the permit from BRSA No.17727 dated 18 December 2015 and the decision taken in the Board of Directors No. 13382 dated 4 December 2015.

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	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Domestic Banks	-	-	-	-
Other Domestic Institutions	-	-	-	-
Foreign Banks	-	1.983.954	-	1.651.009
Other Foreign Institutions	-	-	-	-
Total	-	1.983.954	-	1.651.009

I. Information on shareholder’s equity:

1. Presentation of paid-in capital:

	Current Period 31 December 2016	Prior Period 31 December 2015
Common Stock Provision	-	-
Preferred Stock Provision	652.290	652.290

Amount of paid-in capital is presented in notional amount. As of 31 December 2016, the Parent Bank has TL 274.811 capital reserve due to adjustment of the paid-in capital for inflation. (31 December 2015: TL 272.693)

According to the statement published by BRSA dated 28 April 2005, capital reserve due to adjustment of the paid-in capital for inflation amounting to TL 272.693 has been classified under the other capital reserve sub-account. (31 December 2015: TL 272.693).

2. Amount of paid-in-capital, explanations as to whether the registered share capital system is applied, if so, the amount of registered share capital ceiling:

Registered share capital system is not applied.

3. Information on the share capital increases during the period and other information:

The Group has not increased its share capital during the current period.

4. Information on share capital increases from capital reserves during the current period:

The Group has no share capital increases from capital reserves during the current period.

5. Information on capital commitments, the purpose and the sources until the end of the fiscal year and the subsequent interim period:

The Group has no capital commitments.

6. The effects of anticipations based on the financial figures for prior periods regarding the Group’s income, profitability and liquidity, and the anticipations regarding the uncertainty of these indicators on the shareholders’ equity:

The Group tends to strengthen its shareholders’ equity according to the assessment of financial figures for prior periods regarding the Group’s income, profitability and liquidity, and the anticipations regarding changes in the accounting standards.

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II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (Continued)

7. Summary Information on privileges given to shares representing the capital:

Share structure of the Parent Bank does not consist privileges given to shares representing the capital.

8. Information on valuation differences of marketable securities:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
From Investments in Associates, Subsidiaries, and Joint Ventures	-	-	-	-
Valuation Difference	(1.194)	-	(4.190)	20.328
Foreign Currency Difference	-	-	-	-
Total	(1.194)	-	(4.190)	20.328

9. Information on revaluation value increase fund:

As of 31 December 2016 and 31 December 2015, the Group has no revaluation value increase fund.

10. Information on legal reserves:

	Current Period 31 December 2016	Prior Period 31 December 2015
First Legal Reserve	137.660	137.895
Second Legal Reserve	65.262	61.708
Legal Reserves according to Special Legislation	-	-
Total	202.922	199.603

11. Information on extraordinary reserves:

	Current Period 31 December 2016	Prior Period 31 December 2015
Reserves Allocated per General Assembly Minutes	1.488.831	1.817.221
Undivided Profit	97.844	97.844
Accumulated Loss	-	-
Translation Difference	-	-
Total	1.586.675	1.915.065

12. Information on minority shares:

The Group has no minority shares as of 31 December 2016 and 31 December 2015.

13. Information on shareholders having more than 10% share in capital and/or voting right:

The whole capital of the Parent Bank belongs to HSBC Bank Plc, a bank established according to the laws of the United Kingdom, whose headquarters is located in the United Kingdom.

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III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS

a. Explanations on off-balance sheet commitments:

1. Type and amount of irrevocable commitments:

	Current Period 31 December 2016	Prior Period 31 December 2015
Asset Purchase and Sale Commitments	5.131.953	24.022.597
Commitments for Credit Card Limits	4.797.889	5.373.983
Commitments for Cheques	489.020	545.564
Loan Granting Commitments	481.649	501.356
Short Sale Commitments	53.976	50
Commitments for Credit Cards and Banking Services Promotions	17.609	20.325
Tax and Fund Liabilities from Export Commitments	4.962	5.330
Deposit Purchase and Sales Commitments	-	-
Other Irrevocable Commitments	747.148	968.711
Total	11.724.206	31.437.916

2. Type and amount of probable losses and obligations arising from off-balance sheet items:

The Group has no probable losses arising from off-balance sheet items. Obligations arising from the off-balance sheet are disclosed in “Off-balance sheet commitments”.

2 (i). Non-cash loans including guarantees, bank acceptances, collaterals and others that are accepted as financial commitments and other letters of credit:

	Current Period 31 December 2016	Prior Period 31 December 2015
Letters of Guarantee	1.767.728	1.668.205
Letters of Credit	476.016	595.235
Bank Acceptances	58.547	470.727
Other Guarantees	348.109	339.952
Total	2.650.400	3.074.119

2 (ii). Certain guarantees, temporary guarantees, surety ships and similar transactions:

The Group has no certain guarantees, temporary guarantees, surety ships and similar transactions except explained above in the section 2(i).

3. Explanations on the non-cash loans:

3 (i). Total non-cash loans:

	Current Period 31 December 2016	Prior Period 31 December 2015
Non-Cash Given For Cash Loan Risks	1.325	2.167
With Original Maturity of One Year or Less	-	-
With Original Maturity of More than One Year	1.325	2.167
Other Non-Cash Loans	2.649.075	3.071.952
Total	2.650.400	3.074.119

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3 (ii). Information on sectoral risk concentrations of non-cash loans:

	Current Period 31 December 2016				Prior Period 31 December 2015			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	459	0,06	-	0,00	385	0,05	419	0,02
Farming and Raising livestock	459	0,06	-	0,00	385	0,05	419	0,02
Forestry	-	0,00	-	0,00	-	0,00	-	0,00
Fishing	-	0,00	-	0,00	-	0,00	-	0,00
Manufacturing	593.572	71,64	300.504	16,49	588.096	72,82	729.471	32,19
Mining	140	0,02	1.622	0,09	289	0,04	3.430	0,15
Production	583.078	70,37	280.396	15,39	573.536	71,01	709.058	31,29
Electric, Gas and Water	10.354	1,25	18.486	1,01	14.271	1,77	16.983	0,75
Construction	6.455	0,78	438.501	24,07	5.885	0,73	177.168	7,82
Services	219.878	26,54	1.082.453	59,42	207.665	25,71	1.359.043	59,96
Wholesale and Retail Trade	84.138	10,15	142.452	7,82	90.635	11,22	132.516	5,85
Hotel, Food and Beverage Services	49	0,01	186	0,01	431	0,05	159	0,01
Transportation and Telecommunication	5.840	0,70	19.051	1,05	4.773	0,59	43.062	1,90
Financial Institutions	89.198	10,77	883.746	48,51	82.923	10,27	823.778	36,35
Real Estate and Leasing Services	-	0,00	-	0,00	-	0,00	-	0,00
Self-employment Services	40.513	4,89	26.439	1,45	27.995	3,47	350.738	15,46
Education Services	90	0,01	-	0,00	170	0,02	32	0,00
Health and Social Services	50	0,01	10.579	0,58	738	0,09	8.758	0,39
Other	8.224	0,98	354	0,02	5.695	0,71	292	0,01
Total	828.588	100,00	1.821.812	100,00	807.726	100,00	2.266.393	100,00

3 (iii). Information on the non-cash loans classified under Group I and Group II:

	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	821.818	1.777.721	6.441	44.091
Letters of Guarantee	821.728	937.949	6.441	1.281
Bank Acceptances	-	56.399	-	2.148
Letters of Credit	-	471.725	-	4.291
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	90	311.648	-	36.371

b. Explanations on derivative transactions:

	Current Period 31 December 2016	Prior Period 31 December 2015
Foreign Currency Swap Transactions	21.136.787	30.857.569
Interest Rate Swap Transactions	19.451.498	19.357.802
Foreign Currency Options Transactions	9.229.639	9.388.245
Forward Foreign Currency Transactions	6.618.981	9.998.505
Precious Metals Swap Transactions	34.564	29.384
Precious Metals Options Transactions	78	277.961
Total	56.471.547	69.909.466

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III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ACCOUNTS (Continued)

1. Cash flow hedging accounting:

The Parent Bank applies cash flow hedge accounting by cross currency swap transactions in order to hedge itself from the changes in the interest rates of the fixed-rate time deposits which have maturity of 1-3 month. The Parent Bank applies effectiveness test in any balance sheet date. While the effective portions are accounted under hedging reserves in shareholders’ equity as described in TAS 39, the ineffective portion is recognized at income statement. As of 31 December 2016, swaps amounting to TL 559.703 (31 December 2015: TL : 1.003.370) were subjected to cash flow hedge accounting as hedging instrument. After such hedge accounting, fair value profit before tax amounting to TL 3.755 (31 December 2015: TL 8.081 loss) are recognized under shareholders’ equity in the current period. As of 31 December 2016, there is ineffective portion as a result of effectiveness tests amounting to TL 454 (31 December 2014: TL 280).

c. Explanations on credit derivatives and risk exposures on credit derivatives:

None.

d. Explanations on contingent liabilities and assets:

Contingent assets, are recognised if the probability of occurrence is almost virtually certain, whereas they are disclosed in the notes, if the probability of occurrence is probable. As of 31 December 2016 there is no contingent asset to be disclosed.

Contingent liabilities, are recognized if the probability of occurrence is probable and the liability can be measured reliably, whereas they are disclosed in the notes, if they cannot be measured reliably or the possibility of the occurrence is remote or does not exist.

The Group has certain contingent liabilities relating to various lawsuits due to the transactions it performed in the scope of banking operations. As of 31 December 2016, the total amount of these lawsuits filed against the Group is TL 39.320 (31 December 2015: TL 47.857). A total provision of TL 29.526 (31 December 2015: TL 18.304) has been made for those lawsuits as the probability of being concluded against the Group is higher than the probability of their concluding in its favour, with TL 3.047 (31 December 2015: TL 4.111) being for provisions for refunds related to case document charges.

e. Explanations on fiduciary services rendered on behalf of third parties

The Group acts as an investment agent for the trading of marketable securities and provides custodian services on behalf of its customer.

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT

a. Information on interest income:

1. Information on interest income received from loans (*):

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Short-term Loans	953.119	29.066	980.116	47.988
Medium and Long-Term Loans	598.624	190.214	720.105	185.201
Interest on Non Performing Loans	33.995	-	26.915	1
Total	1.585.738	219.280	1.727.136	233.190

(*) Fee and commission income from cash loans are included.

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IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT
(Continued)

2. Information on interest income received from banks:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
From the CBRT	-	1.136	-	-
From Domestic Banks	7.233	2.206	96.840	1.412
From Foreign Banks	3.475	817	1.292	649
Headquarters and Branches Abroad	-	-	-	-
Total	10.708	4.159	98.132	2.061

3. Information on interest income on marketable securities:

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Financial Assets Held For Trading	59.190	535	87.510	380
Financial Assets At Fair Value Through Profit/Loss	-	-	-	-
Financial Assets Available For Sale	106.091	-	41.033	-
Investments Held to Maturity	-	-	-	-
Total	165.281	535	128.543	380

4. Information on interest income received from investments in associates and subsidiaries:

As of 31 December 2016 and 31 December 2015, the Group has no interest income received from investments in associates and subsidiaries.

b. Information on interest expense:

1. Information on interest expense on funds borrowed (*):

	Current Period 31 December 2016		Prior Period 31 December 2015	
	TL	FC	TL	FC
Banks				
The CBRT	-	-	-	-
Domestic Banks	546	115	623	49
Foreign Banks	72.723	168.997	133.018	135.139
Headquarters and Branches Abroad	-	-	-	-
Other Institutions	-	-	-	-
Total	73.269	169.112	133.641	135.188

(*) Fee and commission income from cash loans are included.

2. Information on interest expense given to associates and subsidiaries:

None.

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IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT
(Continued)

3. Information on interest expense given on securities issued:

The Group does not have any interest expense given on securities issued as of 31 December 2016 and 31 December 2015.

4. Maturity structure of the interest expense on deposits:

Current Period: 31 December 2016	Demand Deposit	Time Deposit					Cumulative Deposit	Total	
		Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year			
Turkish Lira									
Interbank Deposits	-	33.141	-	-	16.605	4.476	3.065	-	33.141
Saving Deposits	-	112.762	388.237	-	16.605	4.476	3.065	-	525.145
Public sector Deposits	-	-	-	-	-	-	-	-	-
Commercial Deposits	-	69.311	24.815	276	257	207	-	-	94.866
Other Deposit	-	110	659	5	-	-	3	-	777
Total	-	215.324	413.711	16.886	4.733	3.275	-	-	653.929
Foreign Currency									
Foreign currency Deposits	-	23.464	72.018	3.665	1.538	700	-	-	101.385
Interbank Deposits	-	471	-	-	-	-	-	-	471
Precious metal Deposits	-	-	647	15	20	-	-	-	682
Total	-	23.935	72.665	3.680	1.558	700	-	-	102.538
Grand Total	-	239.259	486.376	20.566	6.291	3.975	-	-	756.467

Prior Period: 31 December 2015	Demand Deposit	Time Deposit					Cumulative Deposit	Total	
		Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year			
Turkish Lira									
Interbank Deposits	-	7.893	-	-	-	-	-	-	7.893
Saving Deposits	-	262.500	402.796	22.196	7.136	5.076	-	-	699.704
Public Sector Deposits	-	-	-	-	-	-	-	-	-
Commercial Deposits	-	88.096	30.467	2.225	1.330	242	-	-	122.360
Other Deposit	-	426	916	12	5	6	-	-	1.365
Total	-	358.915	434.179	24.433	8.471	5.324	-	-	831.322
Foreign Currency									
Foreign currency Deposits	-	22.731	63.404	3.338	1.387	1.455	-	-	92.315
Interbank Deposits	-	149	-	-	-	-	-	-	149
Precious metal Deposits	-	-	446	15	20	-	-	-	481
Total	-	22.880	63.850	3.353	1.407	1.455	-	-	92.945
Grand Total	-	381.795	498.029	27.786	9.878	6.779	-	-	924.267

5. Information on interest given on repurchase agreements:

As of 31 December 2016, the Parent Bank has interest given on repurchase agreements amounting to TL 50.807 (31 December 2015: TL 61.967).

6. Information on financial lease expenses:

The Group has no financial lease expenses as of 31 December 2016 and 31 December 2015.

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IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (Continued)

7. Information on interest expenses given on factoring payables:

The Group has no interest given on factoring payables as of 31 December 2016 and 31 December 2015.

c. Explanations on dividend income:

As of 31 December 2016, the Group has no share in the dividend distribution of its subsidiaries (31 December 2015: 2.289).

d. Explanations on trading income/loss (net):

1. Trading income/loss (net):

	Current Period 31 December 2016	Prior Period 31 December 2015
Profit	89.470.473	84.836.211
Capital Market Transactions Income	40.908	36.605
Gain on Derivative Financial Transactions	6.412.346	6.962.121
Foreign Exchange Gains	83.017.219	77.837.485
Loss (-)	89.406.458	84.799.154
Capital Market Transactions Loss	20.978	45.916
Loss on Derivative Financial Transactions	5.882.504	6.266.048
Foreign Exchange Loss	83.502.976	78.487.190
Total (Net)	64.015	37.057

2. Explanations on derivative instruments gain/loss:

	Current Period 31 December 2016	Prior Period 31 December 2015
Effect of the change in exchange rates on profit/loss	382.423	298.261
Effect of the change in interest rates on profit/loss	147.419	397.812
Total (Net)	529.842	696.073

e. Explanations on other operating income:

	Current Period 31 December 2016	Prior Period 31 December 2015
Reverse of previous years expenses	125.321	77.571
Gain on sale of non performing loan (*)	41.327	60.578
Gain on Visa share sales	31.843	-
Provision for telecommunication expense	2.855	18.480
Gain on sale of assets	2.401	2.370
Other income	17.629	22.233
Total	221.376	181.232

(*) Includes income from sale of non performing consumer loans for TL 21.227, and non performing corporate and commercial loans for TL 20.100.

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IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (Continued)

f. Impairment Provisions related to loans and other receivables of the Bank:

	Current Period 31 December 2016	Prior Period 31 December 2015
Specific Provisions for Loans and Other Receivables	550.404	577.000
III. Group Loans and Receivables	28.358	13.341
IV. Group Loans and Receivables	111.414	72.189
V. Group Loans and Receivables	410.632	491.470
General Provision Expenses	-	94.670
Provision Expense for Possible Risks	69.475	-
Marketable Securities Impairment Expense	51	1.248
Financial Assets at Fair Value Through Profit or Loss	51	249
Available-for-sale Financial Assets	-	999
Investments in Associates, Subsidiaries and Held-to-Maturity		
Securities Value Decrease	-	-
Investments in Associates	-	-
Subsidiaries	-	-
Jointly Controlled Entities (Joint Ventures)	-	-
Investments Held-to-maturity:	-	-
Other	170.181	28.000
Total	790.111	700.918

g. Information related to other operating expenses:

	Current Period 31 December 2016	Prior Period 31 December 2015
Personnel Expenses	576.285	593.573
Reserve for Employee Termination Benefits	31.974	10.540
Bank Social Aid Provision Fund Deficit Provision	-	-
Impairment Expenses of Property and Equipment	-	-
Depreciation Expenses of Property and Equipment	27.372	36.363
Impairment Expenses of Intangible Assets	-	83.450
Goodwill Impairment Expenses	-	83.450
Amortization Expenses of Intangible Assets	20.563	20.625
Impairment Expenses on Equity Accounted	-	-
Impairment Expenses on Assets Held for Sale Investees	-	-
Depreciation Expenses on Assets Held for Sale	73	70
Impairment Expenses on Non-Current Assets Held for Sale and Discontinued Operations	-	-
Other Operating Expenses	376.808	393.408
Operational Lease Expenses	153.543	163.918
Maintenance Expenses	37.463	35.224
Advertisement Expenses	13.831	21.659
Communication Expenses	28.413	33.746
Maintenance Licence Expenses	32.261	27.963
Other Expenses	111.297	110.898
Loss on Sales of Assets	8.391	1.595
Tax, Duties, Charges and Funds Expenses	47.974	50.551
Saving Deposit Insurance Fund Expenses	40.883	50.575
Other	93.388	203.688
Total	1.223.711	1.444.438

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IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (Continued)

h. Explanation on income/loss before tax for the period for continued and discontinued operations:

The Group has operating income amounting to TL 1.669.101 (31 December 2015: TL 1.883.450) as of 31 December 2016. The amount of provisions for losses for loans and other receivables is TL 790.111 (31 December 2015: TL 700.918), other operating expenses amount to TL 1.223.711 (31 December 2015: TL 1.444.438), loss before tax amounts to TL 344.721 (31 December 2015: TL 261.906 loss before tax).

i. Explanation on tax provision for continuing and discontinued operations:

As of 31 December 2016, the Group has corporate tax provision income amounting to TL 7.908 (31 December 2015: TL 19.420 income) and deferred tax income amounting to TL 2.048 (31 December 2015: TL 43.745 expense).

j. Explanation on net income/loss for the period for continued and discontinued operations:

There are no matters to be disclosed regarding operating profit/loss after tax.

k. Explanations on net profit and loss for the period:

1. Any further explanation on operating results needed for a proper understanding of the Bank’s performance:

Net interest income, amounting to TL 961.312 (31 December 2015: TL 1.131.931), net wage and commission income amounting to TL 422.398 (31 December 2015: TL 530.941) have an important role among the income items in the accounting period ending on 31 December 2016. The wage and commission income received from cash loans are presented in the net interest income. Considering the distribution in interest income, the most important sources of the Group’s interest income are the interests received from loans and intrabank money market. The main portion of the interest expenses consists of the interests paid for deposits and loans received. The most important portion of the commission income consists of the commissions received from credit card transactions and other banking transactions.

2. The effect on the current period profit/loss of the changes in estimations related to financial statements made by the Group, explanation if any effect of these changes in the subsequent periods:

No changes have been made in the accounting estimates which may have a material effect in current period and materially affect subsequent periods.

l. Explanation on other items stated in the income statement:

Explanations on “Other fees and rommissions received” in the income statement:

	Current Period 31 December 2016	Prior Period 31 December 2015
Credit Card Transactions	275.301	317.835
Insurance Commissions	44.727	71.135
Banking Transactions	37.074	61.546
Tefas Fund Platform	28.864	30.925
Other	58.329	77.088
Total	444.295	558.529

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V. EXPLANATIONS AND NOTES RELATED TO THE CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

a. Information on the current year adjustments made in accordance with the requirements of the accounting Standard on Financial Instruments:

1. Decreases/Increases after the revaluation of available-for-sale investments:

As of 31 December 2016, , decrease in investment securities valuation differences balance amounting to TL 1.194 (31 December 2015: TL 16.138 increase). This amount consists of the interest income of the debt instruments, a type of marketable securities, which is calculated by using effective interest rate method and their fair value difference, the costs of share certificates and their fair value differences and the deferred tax effects of these transactions which cannot be related to profit or loss.

As of 31 December 2016, the increase of TL 17.332 (31 December 2015 : TL 8.802 decrease) arising from re-measuring the investments available for sale at their fair value after netting the deferred tax effect, has been shown as a current period movement in the calculation of the securities value increase fund in the equities difference table.

2. Information on increases in cash flow hedges:

The informations regarding the accounting of cash flow hedges are explained in Note b.1 of Section Three.

b. Information on adjustments made for the application of Standard on Accounting for Financial Instruments in the current year:

1. Information on investments available-for-sale:

In the accounting period ending 31 December 2016, gains amounting to TL 25.084 (31 December 2015: TL 544 loss) arising from the revaluation of investments available for sale at their fair values has been transferred from equities to net profit/loss account since the investment available for sale was sold.

2. Information on cash flow hedges:

The informations regarding the accounting of cash flow hedges are explained in Note b.1 of Section Three.

c. Explanations on dividend distribution:

The Ordinary General Assembly Meeting of the Bank has not been held yet as the preparing date of these financial statements.

d. Explanations on issuance of common stock:

The Group has no issuance of common stock as of 31 December 2016 and 31 December 2015.

e. Effects of the adjustments to prior periods on the opening balance sheets:

As of 31 December 2016 and 31 December 2015, the adjustments made for prior periods do not have any effect on opening balance sheets of the Group.

f. Offsetting prior period's losses:

As of 31 December 2016 and 31 December 2015, the Group does not have any offset transactions relating to previous year's losses.

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VI. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CASH FLOWS

a. Explanations about other cash flows items and the effect of changes in foreign exchange rates on cash and cash equivalents:

Operating profit amounting to TL 597.814 (31 December 2015: TL 532.712) consists of interest income amounting to TL 2.054.614 (31 December 2015: TL 2.316.727), interest expense amounting to TL 1.066.352 (31 December 2015: TL 1.228.804), personnel expenses amounting to TL 573.234 (31 December 2015: TL 594.282) and net income other than interest amounting to TL 182.786 (31 December 2015: TL 39.071 expense).

Net decrease in other liabilities amounting to TL 926.322 (31 December 2015: TL 429.015 net decrease) consists mainly of changes in miscellaneous payables, subordinated debts, other liabilities and taxes and other duties payable.

Effect of change in exchange rate on cash and cash equivalents is calculated approximately TL 2.223 increase (31 December 2015: TL 2.498 decrease) as of 31 December 2016.

b. Information on cash flows arising from acquisition of associates, subsidiaries and other investments:

The Group has no cash flow arising from acquisition of associates, subsidiaries and other investments as of 31 December 2016 and 31 December 2015.

c. Information on disposals of associates, subsidiaries or other investments:

The Group has no cash flow related to disposals of associates, subsidiaries or other investments as of 31 December 2016 and 31 December 2015.

d. Information on cash and cash equivalents:

Cash flow statement does not include accumulated interest income of cash and cash equivalents. Marketable securities include securities will amortize in three months after their trade date. Banks balance includes cash equivalents in of banks and other financial institutions and CBRT unblocked accounts.

Cash and cash equivalents at the beginning of the period:

	Current Period	Prior Period
	31 December 2016	31 December 2015
Cash	447.666	360.862
Interbank Money Market Placements	3.879.540	6.833.606
CBRT, Banks and Other Financial Institutions	627.189	2.533.637
Total Cash and Cash Equivalents	4.954.395	9.728.105

Cash and cash equivalents at the end of period:

	Current Period	Prior Period
	31 December 2016	31 December 2015
Cash	269.329	447.666
Interbank Money Market Placements	4.372.998	3.879.540
CBRT, Banks and Other Financial Institutions	1.005.763	627.189
Total Cash and Cash Equivalents	5.648.090	4.954.395

e. Additional information:

None.

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VII. EXPLANATIONS AND NOTES RELATED TO THE GROUP’S RISK GROUP

1. Volume of transactions with the Group’s risk group, lending and deposits outstanding at the period end and income and expenses in the current period:

Current Period – 31 December 2016:

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables	-	-	-	-	-	-
Opening Balance	-	-	20.399	738.493	-	-
Closing Balance	-	-	7.404	545.492	-	-
Interest and Commissions Income	-	-	3.593	2.157	-	-

Prior Period – 31 December 2015:

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables	-	-	-	-	-	-
Opening Balance	-	-	3.964	587.484	-	7
Closing Balance	-	-	20.399	738.493	-	-
Interest and Commissions Income(*)	-	-	1.406	258	-	-

2. Deposits held by the Group’s risk group:

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Current Period 31 December 2016	Prior Period 31 December 2015	Current Period 31 December 2016	Prior Period 31 December 2015	Current Period 31 December 2016	Prior Period 31 December 2015
Deposit						
Opening Balance	751	1.251	49.079	37.517	9.252	19.377
Closing Balance	2.051	751	123.094	49.079	14.129	9.252
Interest expense on deposits(*)	-	-	-	-	576	607

3. Information on forward transactions, option agreements and similar transactions between the Group’s risk group:

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Current Period 31 December 2016	Prior Period 31 December 2015	Current Period 31 December 2016	Prior Period 31 December 2015	Current Period 31 December 2016	Prior Period 31 December 2015
The Fair Value Differences Through Profit and Loss						
Opening Balance	-	-	61.011.511	82.048.760	-	-
Closing Balance	-	-	34.002.552	61.011.511	-	-
Total Profit/Loss(*)	-	-	726.641	630.718	-	-
Transactions for Hedging Purposes						
Opening Balance	-	-	1.003.370	2.474.505	-	-
Closing Balance	-	-	559.703	1.003.370	-	-
Total Profit/Loss(*)	-	-	454	280	-	-

4. Explanations on total remuneration and other benefits which are paid by the Group to top executives of the Group:

As of 31 December 2016, payment is made to Board of Directors top executives of the Group amounting to TL 26.208 (31 December 2015: TL 21.004).

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VIII. INFORMATIONS AND NOTES RELATED TO DOMESTIC, FOREIGN, OFF-SHORE BRANCHES OR AFFILIATES AND FOREIGN REPRESENTATIVES OF THE PARENT BANK

1. Information on domestic and foreign branches and foreign representatives of the Parent Bank:

	Number	Number of Employees			
Domestic Branch	86	3.135			
			Country of Incorporation		
Foreign Representation Office	-	-	-		
				Total Assets	Statutory Share Capital
Foreign branch	1	10	1-Girne	141.826	-
	1	7	2-Gazi Mağosa	49.268	-
	2	36	3-Lefkoşa	346.292	20.659
Off-shore Banking Region Branches	-	-	-	-	-

IX. EXPLANATIONS AND NOTES TO SUBSEQUENT EVENTS

None.

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SECTION SIX

OTHER EXPLANATIONS

I. OTHER EXPLANATIONS ON GROUP’S OPERATIONS

An announcement was placed on Public Disclosure Platform on 9 June 2015 stating that HSBC Bank Plc, HSBC Bank A.Ş., has decided to sell its shares.

On 22 February 2016 HSBC Group announced that the process to sell HSBC Turkey had concluded with a decision to retain the business. In line with this decision, Bank took several important steps in year 2016. Strategic actions are taken to enhance its wholesale and premium positioning, to invest in core banking system and to re-focus the branch network.

SECTION SEVEN

EXPLANATIONS ON INDEPENDENT AUDITOR’S REPORT

I. EXPLANATIONS ON INDEPENDENT AUDITOR’S REPORT

As of 31 December 2016, consolidated financial statements and explanatory notes disclosed herein were reviewed by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. and audit report dated 1 March 2017 is presented before to the consolidated financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITOR

None.

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