AKBANK T.A.Ş.

FINANCIAL STATEMENTS
AT 31 DECEMBER 2016
TOGETHER WITH THE INDEPENDENT
AUDITOR'S REPORT

Report on the Audit of the Consolidated Financial Statements

To the Board of Directors of Akbank T.A.Ş.

Qualified Opinion

We have audited the consolidated financial statements of Akbank T.A.Ş. (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis of Qualified Opinion

The accompanying consolidated financial statements as at December 31, 2016 include a general reserve for possible risks amounting to TL 200,000 thousands and deferred tax asset amounting to TL 40,000 thousands which is carried forward from 2014 by the Bank management for possible results of the circumstances which may arise from possible changes in the economy and market conditions.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matter described in the Basis of Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of loans and advances

Loans and advances to customer is a key area of judgement for the management. There is a potential risk that loans and advances are impaired and no reasonable impairment losses/provisions are provided in accordance with the requirements of IFRS as determining the adequacy of impairment allowance on loans and advances to customers is a key area of judgment for the management. Accordingly, carrying amount of loans and customers might be greater than the estimated recoverable amounts, therefore the impairment test of these loans of advances is a key audit matter. Refer Note 10 to the consolidated financial statements relating to the impairment of loans and advances.

Our audit procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and advances. We also assessed whether impairment losses for loans and advances were reasonably determined in accordance with the requirements of IFRS. In addition we considered, assessed and tested the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to confirm the operating effectiveness of the key controls in place, which identify the impaired loans and advances and the required provisions against them.

Pension fund

The Bank’s personnel are members of the “Akbank T.A.Ş. Personnel Pension Fund Foundation” (“Pension Fund”) established in accordance with the Social Security Law numbered 506, article No.20. As disclosed in the notes to the consolidated financial statements, Banks will transfer their pension funds to the Social Security Institution and the Council of Ministers has been authorized to determine the transfer date According to the technical balance sheet report as at 31 December 2016 prepared considering the related articles of the Law regarding the transferrable benefit obligations for the non-transferrable social benefits and payments which are included in the articles of association, the Fund has no technical or actual deficit which requires a provision.

The valuation of the Pension Fund liabilities requires judgement in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation levels and the impact of any changes in individual pension plans. Management uses external actuaries to assist in assessing these assumptions.

Given the subjectivity of key parameters and supervisory effect of law and regulations in determining the technical rate used in calculations and date of transferrable liabilities we considered this to be a key item for our audit.

Our procedures included, amongst others, assessing whether there have been any significant changes in regulations governing pension liabilities, employee benefits plans during the period, that could lead to adjust the valuation of employee benefits, such as: new plan employee, significant changes in actuarial assumptions or methods related to employee benefit plans, significant funding or reimbursements of a retirement plan during the period or significant changes affecting the workforce. We involved actuarial specialist to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. We further focused on the accuracy and adequacy of the Bank's pension disclosures on key assumptions.

Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased), credit default swaps and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value.

As explained in Note 9 to the consolidated financial statements the Group enters into hedge relationships to manage exposures to interest rate, and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions that meet the specified criteria. The Group uses of derivatives to hedge the financial risk of its loans and advances to customers, available for sale, Akbank AG and borrowings.

There is a potential risk in fair valuation of derivative instruments held for trading in accordance with IFRS.

The Group documents the hedge relationship between hedging instruments and hedged items at inception, as well as their risk management objectives and the strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the instruments that are used in hedging transactions are highly effective in offsetting changes in values of hedged items. The Group performs prospective and retrospective effective effectiveness tests and accounts the results in accordance with IFRS.

There is a potential risk that hedge relationship is not eligible, effective, accounted correctly nor documented formally in accordance with IFRS.

Our procedures included, amongst others, recalculating fair value calculation, reviewing hedge documentation for all hedge relationships, effectiveness tests hedge accounting entries and disclosures relating to derivative financial instruments and hedge accounting considering the requirements of IFRS.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

The Board of Directors are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Director’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The partner in charge of the audit resulting in this independent auditor’s report is Ayşe Zeynep Deldağ.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst &Young Global Limited

Istanbul, Turkey
March 28, 2017

Note		Page

AKBANK T.A.Ş.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED AT 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Notes	Audited 2016	Audited 2015
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey	7	45,398,500	34,288,700
Trading securities	8	63,921	40,513
Derivative financial instruments	9	8,428,812	3,348,525
Loans and advances to customers	10	181,024,088	154,949,085
Investment securities:			
- Available-for-sale	11	34,810,980	43,388,363
- Held-to-maturity	11	17,976,870	10,688,440
Property, plant and equipment	12	881,360	796,130
Intangible assets	13	361,527	224,105
Deferred income tax assets	17	639,322	700,791
Current tax asset		2,561	-
Other assets and pre-payments	14	2,650,686	2,087,974
Total assets		**292,238,627**	**250,512,626**
LIABILITIES			
Customer deposits	15	200,010,473	173,640,026
Interbank money market deposits	16	1,277,373	80,031
Derivative financial instruments	9	4,698,838	1,926,811
Funds borrowed	16	19,887,976	19,940,528
Debt securities in issue	16	24,949,611	18,647,136
Income taxes payable	17	289,159	379,083
Other liabilities and accrued expenses	18	7,511,580	7,045,124
Employment benefit obligations	19	228,082	192,906
Deferred tax liabilities	17	227,719	57,452
Total liabilities		**259,080,811**	**221,909,097**
EQUITY			
Capital and reserves attributable to the equity holders of the parent:			
- Share capital	20	4,000,000	4,000,000
- Adjustment to share capital	20	1,529,151	1,529,151
Total paid-in share capital	20	5,529,151	5,529,151
Share premium		1,709,098	1,709,098
Translation reserve		774,698	444,655
Other reserves		(1,552,908)	(1,446,062)
Retained earnings		26,697,647	22,366,568
		33,157,686	**28,603,410**
Non-controlling interest		130	119
Total equity	21	**33,157,816**	**28,603,529**
Total liabilities and equity		**292,238,627**	**250,512,626**

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Notes	Audited 2016	Audited 2015
Interest income	22	18,961,635	15,855,073
Interest expense	22	(10,471,166)	(8,266,368)
Net interest income		**8,490,469**	**7,588,705**
Fee and commission income	23	3,125,524	2,964,811
Fee and commission expense	23	(542,250)	(466,846)
Net fee and commission income		**2,583,274**	**2,497,965**
Impairment losses on loans and credit related commitments, net	10	(1,754,826)	(1,795,479)
Foreign exchange gains and losses, net		364,339	390,024
Trading gains and losses, net	24	581,641	(323,878)
Dividend income		2,658	2,275
Other operating income		398,241	227,266
Operating income		**10,665,796**	**8,586,878**
Operating expenses	25	(4,464,914)	(4,357,806)
Profit before income taxes		**6,200,882**	**4,229,072**
Income taxes			
Income tax expense	17	(1,069,329)	(919,344)
Deferred	17	(200,463)	47,423
Profit for the period		**4,931,090**	**3,357,151**
Attributable to:			
Equity holders of the Group		4,931,079	3,357,142
Non-controlling interest		11	9
		4,931,090	**3,357,151**
Basic and diluted earnings per share (expressed in TL, full amount, per share)	4	0.0123	0.0084

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Audited 2016	Audited 2015
Net profit for the period	**4,931,090**	**3,357,151**
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Gain/(Loss) on available-for-sale financial assets	(97,598)	(1,034,928)
Foreign exchange differences on translation of foreign operations	330,043	156,806
Gain/(Loss) from cash flow hedges (effective part of fair value changes)	78,608	(311)
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(175,200)	(85,390)
Tax related to gains and losses recognized directly in equity (*)	38,838	224,126
	174,691	**(739,697)**
Available-for-sale financial assets	39,106	(20,358)
Cash flow hedges	41,767	27,588
Tax related to gains/losses transferred to income statement (**)	(16,175)	(1,446)
Net gains/losses transferred to income statement	**64,698**	**5,784**
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**239,389**	**(733,913)**
Net other comprehensive income not being reclassified to profit or loss in subsequent periods	**(16,192)**	**(51,016)**
Remeasurement gains/(losses) on defined benefit plans, net of taxes	(16,192)	(51,016)
Other comprehensive income net of tax	**223,197**	**(784,929)**
Total comprehensive income, net of tax	**5,154,287**	**2,572,222**
Attributable to:		
Equity holders of the Group	5,154,276	2,572,213
Non-controlling interest	11	9

(*) Tax effects of additions to marketable securities valuation differences from available-for-sale financial assets, gain/(loss) from cash flow hedge (effective part of fair value changes) and gain/(loss) from net foreign investment hedge (effective part of exchange difference on borrowings) amount to TL (19,520), TL 15,722 and TL (35,040) respectively (31 December 2015: TL (206,986), TL (62) and TL (17,078)).

(**) Tax effects of transfer from available-for-sale reserves and cash flow reserves to profit or loss amount to TL (7,821) and TL (8,354) respectively (31 December 2015: TL 4,072 and TL (5,518)).

The accompanying notes form an integral part of these consolidated financial statements.

AKBANK T.A.Ş.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Share capital											
	Share capital	Adjustment to share capital	Total paid-in share capital	Share premium	Translation reserve	AFS reserves	Hedge reserves	Actuarial Reserves	Retained Earnings(*)	Attributable to equity holders	Non-controlling interest	Total
Balance at 1 January 2015	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**287,849**	**(266,284)**	**(232,140)**	**(5,903)**	**19,579,026**	**26,600,797**	**100**	**26,600,897**
Transfer to share capital	-	-	-	-	-	-	-	-	-	-	-	-
Remeasurement gains/(losses) on defined benefit plans	-	-	-	-	-	-		(51,016)	-	(51,016)	-	(51,016)
Net unrealized market value gains from AFS portfolio	-	-	-	-	-	(827,943)	-	-	-	(827,943)	-	(827,943)
Net gains on AFS portfolio transferred to the income statement	-	-	-	-	-	(112,557)	-	-	-	(112,557)	-	(112,557)
Net gains and losses recycled to the income statement								-	-			
due to transfer of AFS into held-to-maturity portfolio	-	-	-	-	-	96,271	-	-	-	96,271	-	96,271
Cash flow hedges, net of tax	-	-	-	-	-	-	21,822	-	-	21,822	-	21,822
Translation reserve	-	-	-	-	156,806	-	-	-	-	156,806	-	156,806
Gains on hedges of a net investment in a foreign operation, net of tax	-	-	-	-	-	-	(68,312)	-	-	(68,312)	-	(68,312)
Other comprehensive income	-	-	-	-	156,806	(844,229)	(46,490)	(51,016)	-	(784,929)	-	(784,929)
Profit for the period	-	-	-	-	-	-	-	-	3,357,142	3,357,142	9	3,357,151
Total comprehensive income for the period	-	-	-	-	156,806	(844,229)	(46,490)	(51,016)	3,357,142	2,572,213	9	2,572,222
Dividends paid	-	-	-	-	-	-	-	-	(569,600)	(569,600)	-	(569,600)
Effect of capital increase	-	-	-	-	-	-	-	-	-		10	10
Balance at 31 December 2015	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**444,655**	**(1,110,513)**	**(278,630)**	**(56,919)**	**22,366,568**	**28,603,410**	**119**	**28,603,529**
Balance at 1 January 2016	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**444,655**	**(1,110,513)**	**(278,630)**	**(56,919)**	**22,366,568**	**28,603,410**	**119**	**28,603,529**
Transfer to share capital	-	-	-	-	-	-	-	-	-	-	-	-
Remeasurement gains/(losses) on defined benefit plans	-	-	-	-	-	-	-	(16,192)	-	(16,192)	-	(16,192)
Net unrealized market value gains from AFS portfolio	-	-	-	-	-	(78,079)	-	-	-	(78,079)	-	(78,079)
Net gains on AFS portfolio transferred to the income statement	-	-	-	-		(66,088)	-	-	-	(66,088)	-	(66,088)
Net gains and losses recycled to the income statement							-	-	-		-	
due to transfer of AFS into held-to-maturity portfolio	-	-	-	-	-	97,373	-	-	-	97,373	-	97,373
Cash flow hedges, net of tax	-	-	-	-		-	96,300	-	-	96,300	-	96,300
Translation reserve	-	-	-	-	330,043	-	-	-	-	330,043	-	330,043
Gains on hedges of a net investment in a foreign operation, net of tax	-	-	-	-	-	-	(140,160)	-	-	(140,160)	-	(140,160)
Other comprehensive income	-	-	-	-	330,043	(46,794)	(43,860)	(16,192)	-	223,197	-	223,197
Profit for the period	-	-	-	-	-	-	-	-	4,931,079	4,931,079	11	4,931,090
Total comprehensive income for the period	-	-	-	-	330,043	(46,794)	(43,860)	(16,192)	4,931,079	5,154,276	11	5,155,287
Dividends paid	-	-	-	-	-	-	-	-	(600,000)	(600,000)	-	(600,000)
Effect of capital increase	-	-	-	-	-	-	-	-	-	-	11	11
Balance at 31 December 2016	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**774,698**	**(1,157,307)**	**(322,490)**	**(73,111)**	**26,697,647**	**33,157,686**	**130**	**33,157,816**

(*) Legal reserves amounting to TL 1,386,657 in the statutory financial statements are undistributable (31 December 2015: 1,336,311).

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Notes	Audited 2016	Audited 2015
Cash flows from operating activities:			
Profit before income tax		6,200,882	4,229,072
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	12, 25	130,463	143,616
Amortization of intangible assets	13, 25	86,616	79,184
Provision for loan losses, write off and net of recoveries	10	1,307,747	1,453,444
Employment termination benefits and other short-term employee benefits	19	35,176	14,253
(Gain)/loss on derivative financial instruments		(2,308,260)	(1,039,599)
Interest accrual(*)		1,890,732	869,061
Other non-cash items		(1,069,089)	1,307,539
Taxes paid		(1,136,308)	(797,569)
Operating profit before changes in operating assets and liabilities		**5,137,959**	**6,259,001**
Net (increase) in reserve requirements with the Central Bank of Turkey and restricted cash		(5,410,842)	(5,314,571)
Net (increase) in loans and advances to customers		(29,277,019)	(18,862,923)
Net (increase)/decrease in trading securities		(15,152)	14,823
Net decrease/(increase) in other assets and prepayments		(565,273)	(841,984)
Net increase in other liabilities and accrued expenses		449,222	1,404,597
Net increase in customer deposits and interbank money market deposits		27,389,794	22,543,069
Net cash from operating activities		**(2,291,311)**	**5,202,012**
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	12	(221,325)	(84,826)
Proceeds from property, plant and equipment	12	5,632	8,434
Purchase of other intangible assets	13	(224,038)	(74,285)
Proceeds from other intangible assets		-	-
Proceeds from investment securities		10,865,802	19,541,809
Purchase of investment securities		(7,902,570)	(25,760,648)
Net cash used in investing activities		**2,523,501**	**(6,369,516)**
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue		31,762,060	30,018,194
Payments of borrowed funds and debt securities in issue		(27,092,617)	(27,451,518)
Dividends paid to equity holders		(600,000)	(569,600)
Net cash (used in)/from financing activities		**4,069,443**	**1,997,076**
Effect of exchange rates on cash and cash equivalents		**1,416,377**	**934,340**
Net increase/(decrease) in cash and cash equivalents		**5,718,010**	**1,763,912**
Cash and cash equivalents at the beginning of the period	7	**7,109,441**	**5,345,529**
Cash and cash equivalents at the end of the period	7	**12,827,451**	**7,109,441**

(*) Interest paid is amounting to TL (8,861,671) (31 December 2015: TL (8,205,358)), interest received is amounting to TL 10,752,403 (31 December 2015: TL 15,164,411).

The accompanying notes form an integral part of these consolidated financial statements.

NOTE 1 - PRINCIPAL ACTIVITIES

Akbank T.A.Ş. (“the Parent Bank” or “Akbank” or together with its subsidiaries referred to as “the Group” in these consolidated financial statements) was formed in 1948 and is a member of the Sabancı Group of companies which is incorporated and domiciled in Turkey. The Parent Bank’s head offices are located at Sabancı Center 4. Levent Istanbul/Turkey. As at 31 December 2016, the Bank has 840 branches dispersed throughout the country and 1 branch operating outside the country (31 December 2015: 901 branches and 1 branch operating outside the country). As at 31 December 2016, the Group employed 14,218 people (31 December 2015: 14,418 people). In addition to regular banking operations, the Group also provides insurance intermediary services as an agency of Aksigorta A.Ş. and AvivaSA Emeklilik ve Hayat A.Ş.. The Group’s operations are carried out substantially in one geographical segment (Turkey) and in business segments including consumer banking, commercial banking, SME banking, corporate-investment and private banking, treasury and international banking and other activities through its subsidiaries (i.e. leasing, brokerage and portfolio management).

The Parent Bank’s shares have been quoted on the Istanbul Stock Exchange since 1990. In April 1998, 4.03% of the outstanding share capital of the Parent Bank, was offered and sold in an international offering outside of Turkey in the form of Ordinary Shares and American Depository Receipt (“ADR”). As at 31 December 2016, approximately 51% of the shares are publicly traded, including the ADRs (31 December 2015: 51%).

The major shareholder of the Parent Bank, directly or indirectly, is Sabancı Group.

The consolidated financial statements as at and for the period ended 31 December 2016 have been approved on 28 March 2017 by S. Hakan Binbaşgil, the Chief Executive Officer and by Atıl Özus, the Chief Financial Officer of Akbank T.A.Ş.. Authorized boards of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements for the year ended 31 December 2016 are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared under the historical cost convention, except for held for trading and available-for-sale financial instruments and derivative financial instruments which have all been measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The Bank maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statutory 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 in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA"), and in case where a specific regulation is not made by BRSA, "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") and related appendices and interpretations put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA"). 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", "Communiqué on Disclosures About Risk Management to be Announced to Public by Banks" and amendments to these Communiqués. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

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

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2016 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2016. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment clarifies that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Group.

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

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Group.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

• At cost
• In accordance with IFRS 9, or
• Using the equity method defined in IAS 28

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the consolidated financial statements and did not have an impact on the financial position or performance of the Group.

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

Amendments issued to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

Amendments issued to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the consolidated financial statements of the Group.

Annual Improvements to IFRSs - 2012-2014 Cycle

IASB issued, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan
- IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report
- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located
- IAS 34 Interim Financial Reporting – clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

These amendments did not have any impact on the financial position or performance of the Group.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In September 2014, amendments were issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. An entity shall apply those amendments prospectively. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 original effective date was 1 January 2017. However, in September 2015, IASB decided to defer the effective date to reporting periods beginning on or after 1 January 2018, with early adoption permitted.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. IFRS 15 scopes out (a) lease contracts within the scope of IAS 17 Leases; (b) insurance contracts within the scope of IFRS 4 Insurance Contracts; (c) financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; consequently the Group estimates that the impact of the standard on financial position or performance of the Group will not be significant.

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group has started works in order to comply with IFRS 9 Financial Instruments Standard.

IFRS 16 Leases

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:
a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IAS 40 Investment Property: Transfers of Investment Property (Amendments)

The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

(b) Consolidation

Consolidation principles for subsidiaries:

Subsidiaries are the entities controlled directly or indirectly by the Parent Bank. Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Parent Bank's returns.

Financial statements of related subsidiaries are consolidated from the date when the control is transferred to the Parent Bank.

In the full consolidation method, 100% of subsidiaries' assets, liabilities, income, expense and off-balance sheet items are combined with the Parent Bank's assets, liabilities, income, expense and off-balance sheet items. The carrying amount of the Group's investment in each subsidiary and the Group's portion of the cost value of the capital of each subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Non-controlling interests in the net income of consolidated subsidiaries are identified and adjusted against the income of the Group in order to arrive at the net income attributable to the shareholders of the parent of the Group and presented separately in the Group's income statement. Non-controlling interests are presented separately under equity in the consolidated balance sheet.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Parent Bank and its direct and indirect subsidiaries, Ak Yatırım Menkul Değerler A.Ş., Ak Finansal Kiralama A.Ş., Ak Portföy Yönetimi A.Ş., Akbank (Dubai) Limited, Akbank AG together with A.R.T.S. Ltd. which is "Structured Entity" in which the Parent Bank has no equity interest, but 100% control power, has been included in the scope of consolidation. The Parent Bank together with its consolidated subsidiaries are referred to as the "Group" in these accompanying consolidated financial statements.

Ak Yatırım Menkul Değerler A.Ş. was established on 11 December 1996 to trade in capital markets in accordance with Capital Market Law. This company is providing intermediary services in capital markets, discretionary portfolio management, derivative transactions, repurchase and reverse repurchase agreements with authorizations given by the Capital Markets Board for each transaction.

Ak Finansal Kiralama A.Ş. was established in 1988 for leasing operations and all kinds of agreements and transactions related to these operations.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ak Portföy Yönetimi A.Ş was established at 28 June 2000 in order to manage A and B type mutual funds of Akbank T.A.Ş., B Type variable fund of Ak Yatırım Menkul Değerler A.Ş., pension funds of AvivaSa Emeklilik ve Hayat A.Ş. and Groupama. Portfolios of retail customers are also managed.

Akbank (Dubai) Limited was established in December 2009 in Dubai International Finance Center (DIFC) to provide intermediary services on acquisition and mergers, consultancy about financial instruments, intermediary services on loan and investment instruments. As of 27 December 2016 The Board of Directors of the Bank decided to wind up Akbank (Dubai) Limited and open a representative office in same location. Operations related to process started to be carried out by the competent authorities.

Based on restructuring of Bank's foreign subsidiaries, Akbank N.V. and Akbank AG have merged in Akbank AG with the discontinuation of activities of Akbank N.V effective from 15 June 2012. Akbank AG operates in Germany, providing corporate and retail banking services.

A.R.T.S. Ltd. is a "Structured Entity" which was established in November 1999 for the purpose of supplying long term financing. Ak Receivables Corporation which was established in July 1998 for the similar purposes has been liquidated on March 1, 2016 due to the termination of financing program provided.

The list of consolidated subsidiary undertakings is set out below:

		Shareholding %	
Name of subsidiary	**Country of incorporation**	**2016**	**2015**
Ak Yatırım Menkul Değerler A.Ş.	Turkey	100.00	100.00
Akbank AG	Germany	100.00	100.00
Ak Finansal Kiralama A.Ş.	Turkey	99.99	99.99
Akbank (Dubai) Limited	The United Arab Emirates	100.00	100.00
Ak Portföy Yönetimi A.Ş.	Turkey	100.00	100.00
A.R.T.S. Ltd.	Jersey, Channel Islands	-	-

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Turkish lira, which is the Parent Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Group companies

The results and financial position of all the group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity under translation reserve.

(d) Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative financial instruments are classified as held for trading, unless they are designated as hedging instruments.

(i) Cash flow and Fair value hedges

The Group hedges against its cash flow risk stemming from foreign currency denominated floating rate financial liabilities with interest rate swaps. Within the scope of cash flow hedge accounting, effective part of the fair value changes of the hedging instrument are accounted in equity under "Hedging reserves" whereas the ineffective part is accounted in the income statement. At instances when cash flows relating to hedged item (interest expense) affect the income statement, profit/loss of the related hedging instrument is taken out of the equity and reflected on the income statement.

The Group hedges its TL and foreign currency denominated fixed rate financial assets with cross currency swaps and interest swaps. Within the scope of fair value hedge, fair value changes of hedging instrument and hedged item are accounted in the income statement. As long as the hedge relationship is effective, fair value change of the hedged item is disclosed together with its related asset in the balance sheet for TL denominated fixed rate mortgage loans.

In fair value hedges of TL and FC denominated fixed rate available-for-sale financial assets, fair value changes which have already been booked in equity, are reclassified from equity to income statement.

Prospective tests are performed regularly at the inception of the hedge relationship and both prospective and retrospective tests are performed at each reporting period-end regularly by using "Dollar off-set method". In this method, changes in the fair value of the hedged item and changes in the fair value of the hedging instruments between the designation date and each reporting period-end are compared and effectiveness ratio is calculated. In the determination of the fair values of hedging instruments and hedged item, market yield curves are used. Hedge accounting principles are applied by assessing the calculated effectiveness ratio within the scope of IAS 39.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

When the hedging instrument expires, is executed, sold or the hedge relationship has become ineffective as a result of the effectiveness test or is discontinued as a result of the hedge relationship being revoked;

- The hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged item are realized,
- Adjustments made to the carrying amount of the hedged item are transferred to profit and loss over the life of the hedged item with straight line method for portfolio hedges or with effective interest rate method for micro hedges.

In case the hedged item is derecognized, hedge accounting is discontinued and within context of fair value hedge accounting, adjustments made to the value of the hedged item are accounted in income statement.

In accordance with IAS 39, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy.

(ii) Net Investment Hedge

The Group hedges the net investment risk on foreign investments with the foreign currency denominated financial liabilities. The effective part of the foreign exchange differences on the foreign currency denominated financial liabilities is accounted in the "Hedge reserves" account under shareholders' equity. As at 31 December 2016, the amount of net investment hedge applied to hedge the foreign currency risk arising from share premium and paid-in capital of Akbank AG is EUR 320 million. As at 31 December 2016, the net-off tax amount of TL (358,165) (31 December 2015: TL (218,005)) is accounted under hedge reserves as an investment hedge reserve.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the income statement under net trading gains and losses.

(iv) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IAS 39, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract is accounted for under IAS 39 if it is a financial instrument and in accordance with other appropriate standards if it is not a financial instrument. When the host contract and embedded derivative are closely related, embedded derivatives are not separated from the host contract and accounted according to the standard applied to the host contract.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

In the case of debt instruments classified as available-for-sale, the Parent Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement is removed from equity and recognized in the income statement.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized directly in other comprehensive income.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss.

Equity securities classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be determined reliably measured are carried at cost less impairment, if any. Interest earned whilst holding investment securities is reported as interest income using the EIR method. Dividends received are included in dividend income.

The Bank has Consumer Price Index (''CPI'') linked government bonds under available-for-sale and held-to maturity portfolios with semi-annual fixed real coupon rates and a maturity of 5 to 10 years. These marketable securities are valued and accounted by using effective interest rate method by considering the real coupon rates and reference inflation index at the issue date together with the index calculated by considering the estimated inflation rate. As disclosed in 'Inflation Indexed Bonds Manual' published by Turkish Treasury, reference index used for the real payments is determined based on the inflation rates of two months before. The estimated inflation rate used is updated during the year when necessary.

As at 31 December 2016, the valuation of these securities are made by considering the real coupon rates together with the changes in the CPI references between the issuance date and balance sheet date.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. At 31 December 2016, the Group has not classified any financial asset as financial assets designated at fair value through profit or loss.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Trading assets are initially recognized and subsequently re-measured at fair value. All related realized and unrealized fair value gains and losses are included in net trading gains and losses. Interest earned whilst holding trading assets is reported as interest income.

All purchases and sales of trading assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognized at the settlement date, which is the date that the asset is delivered to/by the Group.

(g) Loans and advances to customers and provisions for loan impairment

Loans and advances granted by the Group are carried initially at fair value including the transaction costs and subsequently recognized at the amortized cost value, less any provision for loan losses.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception. An additional provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

Loans that cannot be recovered are written-off and charged against the allowance for loan losses. Such loans are written-off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for loan losses for the year.

(h) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are retained in the consolidated accompanying financial statements as trading or investment securities and the counterparty liability is included in customer deposits. Securities purchased under agreements to resell ("reverse repos") are recorded as due from banks. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

(i) Fee and commission income and expenses

Fee and commission income and expenses are recognized on an accrual basis except for certain commission income and fees for various banking services which are recorded as income at the time of collection. Borrowing fees and commissions expenses paid to other financial institutions are recognized as transaction costs and recorded using the "Effective interest rate method". 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 recognized as income at the time of collection.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest rate method based on the actual purchase price until, in management's estimates and judgment, collection becomes doubtful.

(k) Related parties

Parties are considered related to the Group if below conditions are met;

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

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

For the purpose of these consolidated financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Sabancı Holding Group and Akbank T.A.Ş. Personnel Pension Fund Foundation are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits, trade finance and foreign currency transactions.

(l) Financial liabilities

Financial liabilities including customer deposits, debt securities in issue and funds borrowed are recognized initially at cost net of transaction costs. Subsequently, financial liabilities are stated at amortized cost including transaction costs and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the financial liability using the effective interest rate method.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Property, plant and equipment

All property, plant and equipment carried at cost less accumulated depreciation and permanent impairment if any. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	50 years
Equipment	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount ("higher of net realizable value and value in use"), it is written down immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets.

Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognized immediately in the consolidated income statement. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized as income in the consolidated financial statements.

Leasehold improvements comprise primarily of the capitalized branch refurbishment costs and are amortized on a straight-line basis over the corresponding lease terms or their estimated useful lives, whichever is shorter.

(n) Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (not exceeding a period of five years).

(o) Accounting for leases

(i) A group company is the lessee

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the fair value of the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(ii) A group company is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Taxation on income

(i) Income taxes currently payable

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognized as an expense in the period in which profits arise.

Taxes other than on income are recorded within operating expenses (Note 25).

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The rates enacted, or substantively enacted, at the balance sheet date are used to determine deferred income tax.

The principal temporary differences arise from the difference between the carrying value and tax base of property, plant and equipment, valuation difference on trading and investment securities, remeasurement of financial assets and liabilities at fair value, provision for loan losses and provision for employment termination benefits. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (Note 17).

Current tax and deferred tax related to items recognized directly in equity are also credited or charged directly to equity.

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

(r) Retirement benefit obligations

(i) Pension and other post-employment obligations

Akbank T.A.Ş. Tekaüt Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension and post-retirement medical benefits. This scheme is funded through payments of both the employees and the employer as required by Social Security Law Numbered 506 and are as follows:

	2016 (%)	2015 (%)
Pension benefit contributions-employer	13	13
Pension benefit contributions-employee	9	9
Medical benefit contributions-employer	8.5	8.5
Medical benefit contributions-employee	5	5

Pension benefit contributions-employer includes 2% additional contribution provided by the Bank above the requirement of the related law.

The Group's obligation in respect of the Fund has been determined as the total of the following:

Obligation for post-employment benefits transferrable to Social Security Institution ("SSI")

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group's obligation regarding post-employment benefits transferrable to SSI has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the related article of the "Law regarding the changes in Social Insurance and General Health Insurance Law ("New Law") and other related laws and regulations" (Note 19). The disclosures set out in Note 19 for post-employment benefits transferrable to SSI therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

Obligation for other benefits

The present value of the Group's obligation regarding pension benefits which are not transferrable to SSI in accordance with the New Law is calculated in accordance with IAS 19 employee benefits using the projected unit credit method.

The obligation for pension benefits transferrable to SSI and other benefits are calculated annually by an independent actuary who is registered with the Turkish Undersecretariat of the Treasury.

The liability to be recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Group does not have a legal right to access to the present value of any economic benefits available in the form of refunds from the Fund or reductions in future contributions to the plan, and therefore no assets are recognized in the balance sheet.

(ii) Employment termination benefits – defined benefit plan

Employment termination benefits represent the present value of the estimated total reserve for the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law (Note 19) and is calculated using the projected unit credit method. In accordance with AS 19, actuarial gains and losses are recognized in equity.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19, "Employee benefits".

(iv) Defined contribution plans

The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognized as an employee benefit expense when they are accrued.

(s) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, therefore the related assets and liabilities are presented gross in the statements of financial position.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

(v) Acceptances

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitments and contingent liabilities (Note 27).

(w) Other credit-related commitments

In the normal course of business, the Group enters into other credit-related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as loans and receivables. Specific provisions are therefore established when losses are considered probable and recorded as other liabilities (Note 27).

(x) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents include cash, cash due from banks and balances with central bank excluding reserve requirements and restricted balances, trading securities and investment securities with original maturity periods of less than three months (Note 7).

(z) Segment reporting

An operating segment is a component of an entity:

(i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(ii) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and,

(iii) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. (Note 6)

(aa) Comparatives

In order to be consistent with the presentation of financial statements dated 31 December 2016, there are certain reclassifications made on income statement of 31 December 2015.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AN JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortized cost.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values (Note 5 (h)). Please refer to 'Note 2 (e)' for explanation related to the use of estimates in valuation of the inflation indexed government bonds.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data. (Note 10)

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AN JUDGMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Deferred tax assets

Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 17)

Employee defined benefit plans

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. (Note 19)

NOTE 4 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the Group by the weighted average number of ordinary shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period.

There is no bonus share issuance as at 31 December 2016 (31 December 2015: None).

The earnings attributable to basic shares for each period are as follows:

	2016	**2015**
Profit attributable to equity holders of the Group	4,931,079	3,357,142
Weighted average number of ordinary shares in issue (1 Kr each)	400,000,000,000	400,000,000,000
Basic earnings per share (expressed in TL, full amount, per share)	**0.0123**	**0.0084**

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares in issue.

There are no diluted shares and accordingly there are no diluted earnings per share for any class of shares.

NOTE 5 – FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

By nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of provisions, through lending to borrowers with a range of credit standing. Such exposures involve not only on-balance sheet loans and advances but also entering into guarantees and other commitments such as letters of credit. The Group also trades in financial instruments where it takes positions to take advantage of short-term market movements in the bond markets and in currency and interest rates.

The Group's risk management is under the responsibility of the "Executive Risk Committee ("the ERC")" which reports to the Board of Directors. The ERC is comprised of the Chairman, 2 Executive Board Members and the Chief Executive Officer. The ERC establishes principles, policies, procedures with regards to risk management of the Group and develops risk management strategies. The ERC also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are updated as necessary. These limits and implementation of policies are broken down to various levels of authorities in order to enhance control effectiveness. The Group's risk positions are reported to the ERC members on a regular basis. Additionally, the ERC reviews the latest figures and projections for the Group's profit and loss accounts and consolidated statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and the macroeconomic environment.

The Asset-Liability Committee ("ALCO") manages the assets and liabilities within the risk limits placed by the ERC. ALCO consists of the Chief Executive Officer, each of the Executive Vice Presidents in charge of the Parent Bank's marketing, lending, treasury, and financial coordination departments and Senior Vice President of the Parent Bank's risk management department. ALCO meets twice a week to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy, risk limits and the macroeconomic environment in order to develop investment, pricing and funding strategies.

The objective of the Group's asset and liability management and use of financial instruments is to limit the Group's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Group has sufficient capital adequacy and is using its capital to maximize net interest income.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to meet an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk.

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and other credit related commitments.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

The credit risk management and control are centralized in credit risk management team of the Group which reports to the Board of Directors and head of each business unit regularly.

The credit risk is monitored by reference to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. Credit risks are determined for each individual customer, enterprise, business group and risk groups separately. While determining credit risk, criteria such as the customers' financial strength, commercial capacities, sectors, geographic areas and capital structure are evaluated. Analyses of the financial position of the customers are based on the statements of account and other information in accordance with the related legislation. Previously determined credit limits are constantly revised according to changing conditions. The type and amount of collateral and guarantees to be obtained are specified on a customer basis during the determination of credit limits.

During loan extensions, limits determined on a customer and product basis are essentially followed up; information on risk and limits is closely monitored.

Non-cash loans liquidated into cash loans are included in the same risk group as cash loans which are not collected upon maturity. Credit risk management is applied for all positions involving counterparty risk.

The Group considers that long-term commitments are more exposed to credit risk than short-term commitments, and focuses more on defining risk limits and collateralization on long term commitments.

The Parent Bank's credit risk measurement techniques and information on the rating of securities and loan portfolio are as follows:

Bank's rating system:

The Parent Bank has internal debt rating model for each segment in order to assess the credit quality of all borrowers.

The default probabilities of each obligor is calculated by using scorecards tailored to various categories of counterparty and derived from the credit rating system of corporate and commercial, SME, consumer and credit card loan portfolios. Both behavioral and application scorecards are taken into consideration in default probability estimations.

Collateral structure of each portfolio is considered in order to determine the realized loss in case default occurs. Default probabilities and realized loss values are combined in order to account for expected loss and unexpected loss values over time and to encourage risk adjusted pricing.

Risk limits are set both at customer and group level and monitored by the ERC in terms of sectors, tenor and concentration. The ERC regularly follows up risk limits and make limit updates when required.

The Bank's rating tool concentration by risk classes as of 31 December 2016 and 2015 is as follows:

	2016	2015
Above average	54.14%	49.10%
Average	34.66%	37.10%
Below average	10.88%	13.30%
Unrated	0.40%	0.50%

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

- Loans which demonstrate a strong capacity to meet financial commitments, with low probability of default are defined "Above average".
- Loans that require close monitoring and demonstrate average to adequate capacity to meet financial commitments with moderate default risk are defined "Average".
- Loans which require varying degrees of specific consideration and have diverse default risks are defined "Below average".

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Risk management related to class of loans and advances:

The internal rating systems of the Bank focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. The credit risk classification of the Group with the outstanding balances of each asset class is as the following:

	2016			
	Commercial loans	**Consumer loans and credit cards**	**Lease receivables**	**Total**
Standard loans	132,696,769	40,023,511	4,893,648	177,613,928
Close monitoring loans	3,790,611	2,227,372	49,783	6,067,766
Impaired loans	1,639,126	2,628,065	153,422	4,420,613
Gross	**138,126,506**	**44,878,948**	**5,096,853**	**188,102,307**
Provisions	**(3,662,281)**	**(3,302,324)**	**(113,614)**	**(7,078,219)**
Net	**134,464,225**	**41,576,624**	**4,983,239**	**181,024,088**

	2015			
	Commercial loans	**Consumer loans and credit cards**	**Lease receivables**	**Total**
Standard loans	109,865,327	38,544,677	3,901,989	152,311,993
Close monitoring loans	2,249,269	2,659,910	33,300	4,942,479
Impaired loans	1,016,088	2,357,235	114,268	3,487,591
Gross	**113,130,684**	**43,561,822**	**4,049,557**	**160,742,063**
Provisions	**(2,679,248)**	**(3,022,624)**	**(91,106)**	**(5,792,978)**
Net	**110,451,436**	**40,539,198**	**3,958,451**	**154,949,085**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

The details of the past due not impaired loans are as follows:

The details of the loans and advances past due but not impaired (the Group defines this group as loans with a past due over 30 days) which are classified under performing loans (including past due close monitoring loans) are as follows;

	2016			
	Commerical Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Past Due 30-60 days	1,604,735	763,089	4,231	2,372,055
Past Due 60-90 days	370,792	369,451	3,278	743,521
Past Due over 90 days	5,515,989	-	35,854	5,551,843
Total	**7,491,516**	**1,132,540**	**43,363**	**8,667,419**

	2015			
	Commerical Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Past Due 30-60 days	304,223	701,961	1,632	1,007,816
Past Due 60-90 days	297,395	318,812	1,444	617,651
Past Due over 90 days	-	-	20,483	20,483
Total	**601,618**	**1,020,773**	**23,559**	**1,645,950**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

The details of the loans are as follows:

2016

	Commerical Loans	Consumer Loans & Credit Cards	Leasing receivables	Total
Neither past due nor impaired	128,995,864	41,118,343	4,900,068	175,014,275
Past due and not individually impaired (*)	7,491,516	1,132,540	43,363	8,667,419
Individually impaired	1,639,126	2,628,065	153,422	4,420,613
Total gross	**138,126,506**	**44,878,948**	**5,096,853**	**188,102,307**
Less: allowance for individually impaired loans	(1,195,119)	(2,628,065)	(88,252)	(3,911,436)
Less: allowance for collectively impaired loans	(2,467,162)	(674,259)	(25,362)	(3,166,783)
Total Allowance for impairment	**(3,662,281)**	**(3,302,324)**	**(113,614)**	**(7,078,219)**
Total net	**134,464,225**	**41,576,624**	**4,983,239**	**181,024,088**

(*) Includes cash loan exposure of USD 1.5 billion related with the acquisition finance of a telecommunication company within a syndicate formed by various domestic and foreign banks, where the financing structure includes acquired company's shares pledged as collateral. Negotiations on restructuring of the loan have started among the telecommunication company's shareholders, creditor banks and related public authorities, which may also include a change in the shareholder structure of the Company.

Provisions for all loan exposures shown in the table above for the past due but not individually impaired are included in allowance for collectively impaired loans as of December 31, 2016.

2015

	Commerical Loans	Consumer Loans & Credit Cards	Leasing receivables	Total
Neither past due nor impaired	111,512,978	40,183,814	3,911,730	155,608,522
Past due and not individually impaired	601,618	1,020,773	23,559	1,645,950
Individually impaired	1,016,088	2,357,235	114,268	3,487,591
Total gross	**113,130,684**	**43,561,822**	**4,049,557**	**160,742,063**
Less: allowance for individually impaired loans	(773,248)	(2,357,235)	(73,776)	(3,204,259)
Less: allowance for collectively impaired loans	(1,906,000)	(665,389)	(17,330)	(2,588,719)
Total Allowance for impairment	**(2,679,248)**	**(3,022,624)**	**(91,106)**	**(5,792,978)**
Total net	**110,451,436**	**40,539,198**	**3,958,451**	**154,949,085**

As of 31 December 2016 and 2015, the Group's collateral types are mainly composed of mortgages, cash blockages, vehicle and machine pledges.

Debt securities, treasury bills and other securities:

For debt securities and other bills, external ratings such as Moody's rating or their equivalents are used by the Treasury Unit for management of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

Current Period - 31 December 2016 Moody's Rating	**Trading Financial Assets (**)**	**Available-for-Sale Financial Assets (*)**	**Held-to-Maturity Securities**	**Total**
Aaa	-	-	-	**-**
Aa1, Aa2, Aa3	-	132,700	-	**132,700**
A1, A2, A3	-	-	-	**-**
Baa1, Baa2, Baa3	-	2,073,074	-	**2,073,074**
Ba1	56,653	32,321,698	17,976,870	**50,355,221**
Ba2	-	-	-	**-**
Total	**56,653**	**34,527,472**	**17,976,870**	**52,560,995**

Prior Period - 31 December 2015 Moody's Rating	**Trading Financial Assets (**)**	**Available-for-Sale Financial Assets (*)**	**Held-to-Maturity Securities**	**Total**
Aaa	-	-	-	**-**
Aa1, Aa2, Aa3	171	-	-	**171**
A1, A2, A3	8,434	255,376	-	**263,810**
Baa1, Baa2, Baa3	15,418	42,220,320	10,688,440	**52,924,178**
Ba1	-	509,323	-	**509,323**
Ba2	-	-	-	**-**
Total	**24,023**	**42,985,019**	**10,688,440**	**53,697,482**

(*) Excluding equity securities and mutual funds.
(**) Excluding share certificates and mutual funds.

Exposure to credit risk:

	2016	**2015**
Credit risk exposures relating to on-balance sheet assets:	**287,265,724**	**245,926,204**
Due from banks and balances with the CBT	43,557,998	32,822,588
Loans and advances to customers	181,024,088	154,949,085
- Commercial loans	134,464,225	110,451,436
- Consumer loans and credit cards	41,576,624	40,539,198
- Financial lease receivables	4,983,239	3,958,451
Trading assets (*)	56,653	33,981
- Government debt securities	9,865	10,103
- Other marketable securities	46,788	23,878
Derivative financial instruments	7,620,938	2,697,157
Hedging derivative instruments	807,874	651,368
Available-for-sale securities (*)	34,527,472	42,985,019
- Government debt securities	29,240,863	35,306,201
- Other marketable securities	5,286,609	7,678,818
Held-to-maturity securities	17,976,870	10,688,440
- Government debt securities	15,461,905	10,688,440
- Other marketable securities	2,514,965	-
Other assets	1,693,831	1,098,566
Credit risk exposures relating to off-balance sheet items:	**74,182,065**	**65,771,024**
- Letter of guarantees	27,151,792	22,551,264
- Other guarantees and warranties	13,195,344	9,805,456
- Credit granting commitments	10,236,901	9,976,655
- Check payment commitments	6,200,426	5,764,751
- Credit card limit commitments	17,397,602	17,672,898
	361,447,789	**311,697,228**

(*) Excluding equity securities and mutual funds.

The above table represents the credit risk exposure of the Group at 31 December 2016 and 2015, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

Industry analysis:

	Financial Institutions	Public sector	Wholesale and retail trade	Manufacturing	Other industries	Individuals	Total
Due from banks and balances with the CBT	**43,557,998**	**-**	**-**	**-**	**-**	**-**	**43,557,998**
Loans and advances to customers	**20,542,988**	**1,954,400**	**24,538,185**	**51,599,728**	**40,812,163**	**41,576,624**	**181,024,088**
- Commercial loans	20,466,628	1,954,400	24,393,147	51,310,846	36,339,204	-	134,464,225
- Consumer loans and credit cards	-	-	-	-	-	41,576,624	41,576,624
- Financial lease receivables	76,360	-	145,038	288,882	4,472,959	-	4,983,239
Trading assets (*)	**3,758**	**9,865**	**-**	**-**	**43,030**	**-**	**56,653**
- Government debt securities	-	9,865	-	-	-	-	9,865
- Other marketable securities	3,758	-	-	-	43,030	-	46,788
Trading derivative financial instruments	**5,309,332**	**-**	**-**	**-**	**2,222,290**	**89,316**	**7,620,938**
Hedging derivative instruments	**807,874**	**-**	**-**	**-**	**-**	**-**	**807,874**
Investment securities (*)	**7,018,113**	**44,957,053**	**-**	**130,206**	**398,970**	**-**	**52,504,342**
- Available-for-sale securities	4,503,148	29,495,148	-	130,206	398,970	-	34,527,472
Government debt securities	-	29,240,863	-	-	-	-	29,240,863
Other marketable securities	4,503,148	254,285	-	130,206	398,970	-	5,286,609
- Held-to-maturity	2,514,965	15,461,905	-	-	-	-	17,976,870
Government debt securities	-	15,461,905	-	-	-	-	15,461,905
Other marketable securities	2,514,965	-	-	-	-	-	2,514,965
Other assets	**1,693,831**	**-**	**-**	**-**	**-**	**-**	**1,693,831**
As at 31 December 2016	**78,933,894**	**46,921,318**	**24,538,185**	**51,729,934**	**43,476,453**	**41,665,940**	**287,265,724**

(*) Excluding equity securities

	Financial Institutions	Public sector	Wholesale and retail trade	Manufacturing	Other industries	Individuals	Total
Due from banks and balances with the CBT	**32,822,588**	**-**	**-**	**-**	**-**	**-**	**32,822,588**
Loans and advances to customers	**12,037,300**	**1,470,425**	**29,752,889**	**36,888,165**	**34,261,108**	**40,539,198**	**154,949,085**
- Commercial loans	11,955,491	1,470,425	29,587,058	36,708,024	30,730,438	-	110,451,436
- Consumer loans and credit cards	-	-	-	-	-	40,539,198	40,539,198
- Financial lease receivables	81,809	-	165,831	180,141	3,530,670	-	3,958,451
Trading assets (*)	**13,411**	**10,103**	**-**	**-**	**10,467**	**-**	**33,981**
- Government debt securities	-	10,103	-	-	-	-	10,103
- Other marketable securities	13,411	-	-	-	10,467	-	23,878
Trading derivative financial instruments	**1,703,661**	**-**	**-**	**-**	**977,973**	**15,523**	**2,697,157**
Hedging derivative instruments	**651,368**	**-**	**-**	**-**	**-**	**-**	**651,368**
Investment securities (*)	**7,127,897**	**46,121,712**	**-**	**51,213**	**372,637**	**-**	**53,673,459**
- Available-for-sale securities	7,127,897	35,433,272	-	51,213	372,637	-	42,985,019
Government debt securities	-	35,306,201	-	-	-	-	35,306,201
Other marketable securities	7,127,897	127,071	-	51,213	372,637	-	7,678,818
- Held-to-maturity	-	10,688,440	-	-	-	-	10,688,440
Government debt securities	-	10,688,440	-	-	-	-	10,688,440
Other marketable securities	-	-	-	-	-	-	-
Other assets	**1,098,566**	**-**	**-**	**-**	**-**	**-**	**1,098,566**
As at 31 December 2015	**55,454,791**	**47,602,240**	**29,752,889**	**36,939,378**	**35,622,185**	**40,554,721**	**245,926,204**

(*) Excluding equity securities.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

Geographical Distribution:

	Turkey	USA	EU Countries	Non-EU Countries	Total
Due from banks and balances with the CBT	**35,895,539**	**570,116**	**7,075,974**	**16,369**	**43,557,998**
Loans and advances to customers	**173,994,546**	**26,219**	**6,230,289**	**773,034**	**181,024,088**
- Commercial loans	127,434,683	26,219	6,230,289	773,034	134,464,225
- Consumer loans and credit cards	41,576,624	-	-	-	41,576,624
- Financial lease receivables	4,983,239	-	-	-	4,983,239
Trading assets (*)	**56,653**	**-**	**-**	**-**	**56,653**
- Government debt securities	9,865	-	-	-	9,865
- Other marketable securities	46,788	-	-	-	46,788
Trading derivative financial instruments	**1,425,067**	**237,280**	**5,941,598**	**16,993**	**7,620,938**
Hedging derivative Instruments	**-**	**-**	**807,874**	**-**	**807,874**
Investment securities (*)	**51,605,660**	**-**	**898,682**	**-**	**52,504,342**
- Available-for-sale securities					
Government debt securities	29,240,863	-	-	-	29,240,863
Other marketable securities	4,387,927	-	898,682	-	5,286,609
- Held-to-maturity securities					
Government debt securities	15,461,905	-	-	-	15,461,905
Other marketable securities	2,514,965	-	-	-	2,514,965
Other assets	**1,693,831**	**-**	**-**	**-**	**1,693,831**
As at 31 December 2016	**264,671,296**	**833,615**	**20,954,417**	**806,396**	**287,265,724**

(*) Excluding equity securities.

	Turkey	USA	EU Countries	Non-EU Countries	Total
Due from banks and balances with the CBT	**27,428,611**	**788,144**	**4,591,356**	**14,477**	**32,822,588**
Loans and advances to customers	**150,132,754**	**10**	**3,947,392**	**868,929**	**154,949,085**
- Commercial loans	105,635,105	10	3,947,392	868,929	110,451,436
- Consumer loans and credit cards	40,539,198	-	-	-	40,539,198
- Financial lease receivables	3,958,451	-	-	-	3,958,451
Trading assets (*)	**33,981**	**-**	**-**	**-**	**33,981**
- Government debt securities	10,103	-	-	-	10,103
- Other marketable securities	23,878	-	-	-	23,878
Trading derivative financial instruments	**1,037,090**	**192,519**	**1,445,505**	**22,043**	**2,697,157**
Hedging derivative instruments	**-**	**-**	**651,368**	**-**	**651,368**
Investment securities (*)	**52,687,976**	**-**	**985,483**	**-**	**53,673,459**
- Available-for-sale securities					
Government debt securities	35,306,201	-	-	-	35,306,201
Other marketable securities	6,693,335	-	985,483	-	7,678,818
- Held-to-maturity securities					
Government debt securities	10,688,440	-	-	-	10,688,440
Other marketable securities	-	-	-	-	-
Other assets	**1,090,213**	**-**	**6,854**	**1,499**	**1,098,566**
As at 31 December 2015	**232,410,625**	**980,673**	**11,627,958**	**906,948**	**245,926,204**

(*) Excluding equity securities.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk

The risk principles, policies and risk limits related to the management of market risk are approved by the Board of Directors and reviewed on a regular basis. The Bank's Senior Management performs day to day management of the market risk in accordance with the limits assigned by the Board of Directors. The Bank is exposed to market risk as a result of fluctuations in foreign exchange rates, interest rates, and market prices of stocks. Exchange rate risk and interest rate risk are evaluated as the two most important components of market risk. The Bank engages in derivative transactions for hedge purposes when found necessary.

Market risk is calculated by two different methods, namely the "inherent model" and the "standard method". According to inherent model market risk is measured by Value at Risk ("VaR") approach which takes into account different risk factors. VaR calculations use variance-covariance, historical simulation and Monte Carlo simulation methods. The software used can perform calculations with an advanced yield curve and volatility models. The VaR model is based on the assumptions of 99% confidence interval and a 10-day holding period. VaR analyses are performed on a daily basis and reported to the Senior Management. VaR analyses are also used as risk and limit management instrument for trading transactions. The limits are reviewed periodically according to market conditions and the application of specified limits is subject to authority restrictions and therefore the control effectiveness is increased. VaR analyses are supported with scenario analyses and stress tests, and take into consideration the effects of low probability events which have significant impact and the effects of market fluctuations. Retrospective tests of the model outputs are performed regularly. The standard method is used for the legal reporting.

The following table indicates the details of the market risk calculation as of 31 December 2016, in accordance with the Market Risk Calculation principles pursuant to the Third Section of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" published in the Official Gazette no. 29511 on 23 October 2015.

Standardised approach:

		RWA(Risk Weighted Amount)
	Outright products	
1	Interest rate risk (general and specific)	2,012,660
2	Equity risk (general and specific)	11,875
3	Foreign exchange risk	2,444,377
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	58,463
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**4,527,375**

Outright products refer to positions in products that are not optional.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk

Foreign currency denominated assets and liabilities, together with purchase and sale commitments, give rise to foreign exchange exposure. This risk is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities and the remaining foreign exchange exposures are hedged on a portfolio basis with derivative financial instruments that include primarily forward foreign exchange contracts and currency swaps. The Board, taking into account the recommendations by the ERC, sets a limit for the size of foreign exchange exposure, which is closely monitored by ALCO.

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table summarizes the Group's assets and liabilities and equity at carrying amounts and derivatives at notional amounts categorized by currency.

	2016					
	Foreign currency					
	EUR	USD	GBP	Other	TL	Total
Cash and due from banks and balances with the Central Bank of Turkey	8,995,039	29,985,213	75,904	828,176	5,514,168	45,398,500
Trading and investment securities	5,603,645	23,035,304	-	513,938	23,698,884	52,851,771
Derivative financial instruments	1,041,428	2,415,343	1,133	86,935	4,883,973	8,428,812
Loans and advances to customers	35,942,621	41,652,192	18,424	99,059	103,311,792	181,024,088
Property, plant and equipment	656	1,772	-	-	878,932	881,360
Intangible assets	957	-	-	-	360,570	361,527
Deferred tax assets	97	14,295	-	-	624,930	639,322
Current tax	-	-	-	-	2,561	2,561
Other assets and pre-payments	469,784	855,346	56	276	1,325,224	2,650,686
Total assets	**52,054,227**	**97,959,465**	**95,517**	**1,528,384**	**140,601,034**	**292,238,627**
Customer deposits	38,666,933	68,971,285	1,479,832	2,015,983	88,876,440	200,010,473
Interbank money market deposits, funds borrowed and debt securities in issue	10,222,887	31,446,784	3,233	186,679	4,255,377	46,114,960
Derivative financial instruments	345,743	702,600	638	932	3,648,925	4,698,838
Income taxes payable	-	-	-	-	289,159	289,159
Other liabilities and accrued expenses	910,177	713,402	1,317	10,258	5,876,426	7,511,580
Employment benefit obligations	118	743	-	-	227,221	228,082
Deferred tax liability	102,876	-	-	-	124,843	227,719
Equity and non-controlling interest	-	-	-	-	33,157,816	33,157,816
Total liabilities and equity	**50,248,734**	**101,834,814**	**1,485,020**	**2,213,852**	**136,456,207**	**292,238,627**
Net balance sheet position	**1,805,493**	**(3,875,349)**	**(1,389,503)**	**(685,468)**	**4,144,827**	**-**
Off-balance sheet derivative instruments net notional position	**(247,988)**	**2,694,400**	**1,389,373**	**797,319**	**(2,683,176)**	**1,949,928**

At 31 December 2016, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 3.5000 =US$ 1 and TL 3.6897 =EUR 1.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

	2015					
	Foreign currency					
	EUR	**USD**	**GBP**	**Other**	**TL**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	5,748,934	21,038,764	34,534	3,713,701	3,752,767	34,288,700
Trading and investment securities	5,953,605	23,366,961	-	-	24,796,750	54,117,316
Derivative financial instruments	-	-	-	-	3,348,525	3,348,525
Loans and advances to customers	26,747,536	40,103,231	12,698	50,471	88,035,149	154,949,085
Property, plant and equipment	769	1,761	-	-	793,600	796,130
Intangible assets	619	-	-	-	223,486	224,105
Deferred tax assets	9,464	13,676	-	-	677,651	700,791
Other assets and pre-payments	155,086	374,817	1,144	956	1,555,971	2,087,974
Total assets	**38,616,013**	**84,899,210**	**48,376**	**3,765,128**	**123,183,899**	**250,512,626**
Customer deposits	26,687,025	68,859,303	1,523,673	1,422,415	75,147,610	173,640,026
Interbank money market deposits, funds borrowed and debt securities in issue	8,903,550	25,831,534	644	175,032	3,756,935	38,667,695
Derivative financial instruments	-	-	-	-	1,926,811	1,926,811
Income taxes payable	8,322	-	-	-	370,761	379,083
Other liabilities and accrued expenses	661,841	507,771	804	7,445	5,867,263	7,045,124
Employment benefit obligations	139	481	-	-	192,286	192,906
Deferred tax liability	57,452	-	-	-	-	57,452
Equity and non-controlling interest	-	-	-	-	28,603,529	28,603,529
Total liabilities and equity	**36,318,329**	**95,199,089**	**1,525,121**	**1,604,892**	**115,865,195**	**250,512,626**
Net balance sheet position	**2,297,684**	**(10,299,879)**	**(1,476,745)**	**2,160,236**	**7,318,704**	**-**
Off-balance sheet derivative instruments net notional position	**(1,060,502)**	**9,696,914**	**1,476,778**	**(2,188,358)**	**(6,145,752)**	**1,779,080**

At 31 December 2015, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 2.8800 =US$ 1 and TL 3.1422 =EUR 1.

Currency Risk Sensitivity Analysis:

	Current Period - 31 December 2016		**Prior Period - 31 December 2015**	
Change in exchange rate	**Effect on Profit/Loss**	**Effect on Equity**	**Effect on Profit/Loss**	**Effect on Equity**
(+) 10%	98,241	(71,658)	44,796	(60,859)
(-) 10%	(98,241)	71,658	(44,796)	60,859

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest-sensitive assets and liabilities in on and off-balance sheet. Interest rate risk is the key component of the Group's asset and liability management. Interest rate risk is managed on a portfolio basis by applying different strategies such as using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, or building hedge relationships in order to minimize the effects of changes in interest rates. Special emphasis is given to providing a balance between the duration of assets and liabilities. Repricing/duration, gap, sensitivity and scenario analysis are the main methods used to manage the risks.

The tables below summarize the Group's exposure to interest rate risks at 31 December 2016 and 31 December 2015. Included in the tables are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

	2016					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	31,549,196	35,765	-	-	13,813,539	45,398,500
Trading and investment securities	9,446,218	12,023,828	24,022,451	7,068,498	290,776	52,851,771
Derivative financial instruments	5,410,032	1,789,510	832,183	397,087	-	8,428,812
Loans and advances to customers	73,081,125	45,070,305	53,085,033	9,311,636	475,989	181,024,088
Property, plant and equipment	-	-	-	-	881,360	881,360
Intangible assets	-	-	-	-	361,527	361,527
Deferred income tax assets	-	-	-	-	639,322	639,322
Current tax	-	-	-	-	2,561	2,561
Other assets and pre-payments	916,949	270,465	127,708	59,587	1,275,977	2,650,686
Total assets	**120,403,520**	**59,189,873**	**78,067,375**	**16,836,808**	**17,741,051**	**292,238,627**
Customer deposits	143,542,365	20,413,857	6,335,809	470,442	29,248,000	200,010,473
Interbank money market deposits, funds borrowed and debt securities in issue	31,240,001	4,951,583	6,431,842	3,491,534	-	46,114,960
Derivative financial instruments	1,596,889	2,107,735	746,023	248,191	-	4,698,838
Income taxes payable	-	-	-	-	289,159	289,159
Other liabilities and accrued expenses	761,738	656,271	334,591	70,450	5,688,530	7,511,580
Employment benefit obligations	-	-	-	-	228,082	228,082
Deferred tax liability	-	-	-	-	227,719	227,719
Total liabilities	**177,140,993**	**28,129,446**	**13,848,265**	**4,280,617**	**35,681,490**	**259,080,811**
Net repricing period gap	**(56,737,473)**	**31,060,427**	**64,219,110**	**12,556,191**	**(17,940,439)**	
Off-balance sheet derivative instruments net notional position	**3,488,221**	**242,768**	**(44,426)**	**28,298**	**-**	**3,714,861**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

	2015					
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Cash and due from banks and balances with the Central Bank of Turkey	23,822,902	-	-	-	10,465,798	34,288,700
Trading and investment securities	9,483,313	9,590,730	26,901,025	7,722,413	419,835	54,117,316
Derivative financial instruments	2,169,345	770,290	192,092	216,798	-	3,348,525
Loans and advances to customers	62,324,499	47,292,795	39,275,647	5,911,208	144,936	154,949,085
Property, plant and equipment	-	-	-	-	796,130	796,130
Intangible assets	-	-	-	-	224,105	224,105
Deferred income tax assets	-	-	-	-	700,791	700,791
Other assets and pre-payments	488,003	119,129	40,474	33,392	1,406,976	2,087,974
Total assets	**98,288,062**	**57,772,944**	**66,409,238**	**13,883,811**	**14,158,571**	**250,512,626**
Customer deposits	125,197,732	11,521,758	12,985,085	2,532,859	21,402,592	173,640,026
Interbank money market deposits, funds borrowed and debt securities in issue	22,682,587	5,818,577	7,214,933	2,951,598	-	38,667,695
Derivative financial instruments	735,157	566,383	171,962	198,773	254,536	1,926,811
Income taxes payable	-	-	-	-	379,083	379,083
Other liabilities and accrued Expenses	546,809	301,785	194,126	96,139	5,906,265	7,045,124
Employment benefit obligations	-	-	-	-	192,906	192,906
Deferred tax liability	-	-	-	-	57,452	57,452
Total liabilities	**149,162,285**	**18,208,503**	**20,566,106**	**5,779,369**	**28,192,834**	**221,909,097**
Net repricing period gap	**(50,874,223)**	**39,564,441**	**45,843,132**	**8,104,442**	**(14,034,263)**	
Off-balance sheet derivative instruments net notional position	**7,025,059**	**4,161,014**	**(5,180,675)**	**(4,240,072)**	**-**	**1,765,326**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

The tables below summarize effective average interest rates by major currencies for monetary financial instruments at 31 December 2016 and 2015:

	31 December 20016			31 December 2015		
Assets	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Cash and due from banks:						
- Time deposits in foreign banks	6.03	-	9.48	0.26	-	-
- Time deposits in domestic banks	0.92	1.54	10.57	0.53	0.47	10.86
- Interbank money market placements	-	-	9.84	-	-	9.37
- Reserve requirements with the Central Bank of Turkey	0.75	-	5.31	0.49	-	5.81
Trading securities	-	-	12.27	-	3.26	13.12
Loans and advances to customers	5.07	3.66	13.04	4.35	3.56	12.93
Investment securities:						
- Available-for-sale	3.71	2.38	9.52	3.80	2.46	9.68
- Held-to-maturity	4.05	3.62	9.82	3.83	3.69	9.71
Liabilities						
Customer deposits and interbank and money market deposits	2.37	1.09	8.78	1.70	1.02	8.99
Funds borrowed	2.24	0.97	9.17	1.71	0.98	8.00
Debt securities in issue	3.84	1.68	9.40	3.56	2.04	10.02

Interest rate risk for all banking transactions outside the trading portfolio are followed under interest rate risk related to the banking book. Interest rate risk related to the trading portfolio is followed under market risk.

ALCO performs daily management of interest rate risk in accordance with the risk limits set by the ERC in relation to interest rate sensitivities of the banking book. ALCO meetings are held on a weekly basis.

In addition to interest rate sensitivities measured and reported weekly, daily and transaction-based analyses are also performed when significant fluctuations occur in markets.

Repricing term mismatch and duration mismatch analyses, net economic value change analyses under different interest rate stress scenarios and income simulations are used for interest rate risk management. Repricing risk, yield curve risk, basis risk and optionality are considered under interest rate risk scope.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

The interest rate risk arising from banking book is calculated and reported on a monthly basis according to "Regulation on Measurement and Evaluation of Interest Rate Risk in Banking Accounts with Standard Shock Method" published in the Official Gazette no 28034 on 23 August 2011 through applying interest rate shock method to on and off balance sheet positions.

As of 31 December 2016 and 31 December 2015, 500 bp shock and 200 bp shock are applied for Turkish Lira and foreign currency for the assessment of the changes in the fair value of balance sheet items which are subject to calculation.

		31.12.2016		31.12.2015	
Currency	**Applied Shock (+/- x basis points)**	**Gains/Losses**	**Gains/Shareholder's Equity - Losses/Shareholder's Equity**	**Gains/Losses**	**Gains/Shareholder's Equity - Losses/Shareholder's Equity**
TL	(400)	3,522,632	10.12%	3,388,004	11.14%
TL	500	(3,732,576)	(10.71%)	(3,577,919)	(11.77%)
USD	(200)	(534,093)	(1.53%)	567,488	1.87%
USD	200	509,074	1.47%	(592,08)	(1.94%)
EUR	(200)	57,075	0.15%	84,302	0.27%
EUR	200	(270,409)	(0.78%)	(500,965)	(1.65%)
Total (for negative shocks)		**3,045,614**	**8.74%**	**4,039,794**	**13.28%**
Total (for positive shocks)		**(3,493,911)**	**(10.02%)**	**(4,670,964)**	**(15.36%)**

(f) Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and guarantees. A major objective of the Group's asset and liability management is to ensure that sufficient liquidity is available to meet the Group's commitments to customers and to satisfy the Group's own liquidity needs. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. The ability to fund the existing and prospective debt requirements is managed by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. The ERC sets limits on the key liquidity ratios and funding gap and these limits are closely monitored.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

Liquidity coverage ratio is calculated by comparing the high quality liquid assets owned by the Bank to net cash outflow in one month maturity. Balance sheet accounts that are significant on the ratio can be listed as reserve requirements maintained at CBRT, marketable securities that are not subject to repurchase agreements or not given as collateral, corporate deposits, bank deposits, foreign funds and borrowings from banks. The effect of these accounts on the liquidity coverage ratio is higher than other accounts, since these accounts have a higher share in liquid assets and net cash outflows.

In accordance with the "Regulation on calculation of Bank's liquidity coverage ratio", published in Official Gazette no. 28948, dated 21 March 2014, liquidity coverage ratio is calculated for the last three months are presented below.

	Current Period - 31.12.2016		Prior Priod – 31.12.2015	
	TL+FC	**FC**	**TL+FC**	**FC**
October	122.85	149.72	155.95	239.12
November	120.89	220.90	137.50	184.31
December	143.62	190.56	140.46	220.97

The table below analyses carrying amount of assets and liabilities of the Group into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date.

	2016						
	Demand	**up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No maturity**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	19,727,387	25,635,348	35,765	-	-	-	45,398,500
Trading and investment securities	286,853	314,878	3,249,252	33,817,306	15,179,559	3,923	52,851,771
Derivative financial instruments	-	803,700	1,516,529	3,532,891	2,575,692	-	8,428,812
Loans and advances to customers	323,490	48,966,937	38,846,932	70,655,782	22,078,448	152,499	181,024,088
Property, plant and equipment	-	-	-	-	-	881,360	881,360
Intangible assets	-	-	-	-	-	361,527	361,527
Deferred income tax assets	-	-	-	639,322	-	-	639,322
Current Tax	-	-	-	-	-	2,561	2,561
Other assets and pre-payments	367,730	772,508	232,491	423,329	372,258	482,370	2,650,686
Total assets	**20,705,460**	**76,493,371**	**43,880,969**	**109,068,630**	**40,205,957**	**1,884,240**	**292,238,627**
Customer deposits	30,409,728	128,234,756	19,269,178	18,467,397	3,629,414	-	200,010,473
Interbank money market deposits, funds borrowed and debt securities in issue	-	8,864,138	11,634,726	17,176,119	8,439,977	-	46,114,960
Derivative financial instruments	109,832	896,304	1,710,848	1,089,573	892,281	-	4,698,838
Income taxes payable	-	-	289,159	-	-	-	289,159
Other liabilities and accrued expenses	155,191	5,952,140	675,914	499,469	228,866	-	7,511,580
Employment benefit obligations	-	-	-	228,082	-	-	228,082
Deferred tax liability	-	-	-	227,719	-	-	227,719
Total liabilities	**30,674,751**	**143,947,338**	**33,579,825**	**37,688,359**	**13,190,538**	**-**	**259,080,811**
Net gap as at 31 December 2016	**(9,969,291)**	**(67,453,967)**	**10,301,144**	**71,380,271**	**27,015,419**	**1,884,240**	**33,157,816**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

	2015						
	Demand	up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Cash and due from banks and balances with the Central Bank of Turkey	10,319,277	23,969,423	-	-	-	-	34,288,700
Trading and investment securities	415,912	361,732	1,042,411	32,797,425	19,495,913	3,923	54,117,316
Derivative financial instruments	-	216,154	471,487	1,083,375	1,577,509	-	3,348,525
Loans and advances to customers	312,781	42,222,283	36,341,135	56,098,365	19,829,585	144,936	154,949,085
Property, plant and equipment	-	-	-	-	-	796,130	796,130
Intangible assets	-	-	-	-	-	224,105	224,105
Deferred income tax assets	-	-	-	700,791	-	-	700,791
Other assets and pre-payments	415,636	811,291	72,620	108,566	199,832	480,029	2,087,974
Total assets	**11,463,606**	**67,580,883**	**37,927,653**	**90,788,522**	**41,102,839**	**1,649,123**	**250,512,626**
Customer deposits	22,425,480	124,181,024	11,501,438	12,999,225	2,532,859	-	173,640,026
Interbank money market deposits, funds borrowed and debt securities in issue	-	8,278,988	12,067,082	12,777,078	5,544,547	-	38,667,695
Derivative financial instruments	254,536	415,064	236,556	417,038	603,617	-	1,926,811
Income taxes payable	-	-	379,083	-	-	-	379,083
Other liabilities and accrued expenses	313,947	5,154,225	629,180	706,462	241,310	-	7,045,124
Employment benefit obligations	-	-	-	192,906	-	-	192,906
Deferred tax liability	-	-	-	57,452	-	-	57,452
Total liabilities	**22,993,963**	**138,029,301**	**24,813,339**	**27,150,161**	**8,922,333**	**-**	**221,909,097**
Net gap as at 31 December 2015	**(11,530,357)**	**(70,448,418)**	**13,114,314**	**63,638,361**	**32,180,506**	**1,649,123**	**28,603,529**

The most important funding resources of the Parent Bank are the shareholders' equity, the diversified and steady deposit base and the long-term funds borrowed from international institutions which are mainly placed in interest earning assets. In spite of a substantial portion of deposits from individuals being short-term, deposits are diversified by number and type, and maturities of a large portion of deposits are renewed, which indicates that these deposits will provide a long-term and stable source of funding for the Parent Bank.

Undiscounted cash flows of the financial liabilities of the Group are as follows:

	2016					
Liabilities	**Up to 1 month and demand**	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Customer deposits	132,335,034	27,281,514	19,871,777	19,599,073	3,830,608	**202,918,006**
Funds borrowed and debt securities in issue	1,277,155	6,550,365	12,473,118	19,888,947	9,337,073	**49,526,658**
Interbank money market deposits	1,277,622	-	-	-	-	**1,277,622**
Total	**134,889,811**	**33,831,879**	**32,344,895**	**39,488,020**	**13,167,681**	**253,722,286**
Letter of guarantees (*)	**2,164,751**	**4,218,702**	**13,602,349**	**3,675,985**	**16,685,349**	**40,347,136**

(*) Undiscounted maturities of letter of guarantees represent the contractual maturities whereas such balances have demand nature due to their callable status until maturity.

	2015					
Liabilities	**Up to 1 month and demand**	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Customer deposits	121,993,491	25,234,138	11,985,377	13,988,530	2,755,406	**175,956,942**
Funds borrowed and debt securities in issue	1,132,501	7,362,329	12,772,790	14,751,396	6,247,659	**42,266,675**
Interbank money market deposits	50,082	30,551	-	-	-	**80,633**
Total	**123,176,074**	**32,627,018**	**24,758,167**	**28,739,926**	**9,003,065**	**218,304,250**
Letter of guarantees (*)	**2,052,141**	**3,048,802**	**7,778,711**	**4,302,278**	**15,174,788**	**32,356,720**

(*) Undiscounted maturities of letter of guarantees represent the contractual maturities whereas such balances have demand nature due to their callable status until maturity.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

Undiscounted cash flows of derivative financial instruments of the Group are as follows:

2016						
Derivatives held for trading	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Foreign exchange derivatives:	944,092	710,704	35,393	815,815	758,686	3,264,690
– Inflow	23,564,084	29,916,286	43,654,105	36,371,321	7,448,897	140,954,693
– Outflow	(22,619,992)	(29,205,582)	(43,618,712)	(35,555,506)	(6,690,211)	(137,690,003)
Interest rate derivatives:	3,460	6,700	24,072	144,432	92,687	271,351
– Inflow	12,897	106,796	422,549	1,802,328	968,894	3,313,464
– Outflow	(9,437)	(100,096)	(398,477)	(1,657,896)	(876,207)	(3,042,113)
Derivatives held for hedging:						
Foreign exchange derivatives:	(23,565)	(49,986)	(133,683)	91,845	-	(115,389)
– Inflow	4,321	3,322	29,476	3,460,102	-	3,497,221
– Outflow	(27,886)	(53,308)	(163,159)	(3,368,257)	-	(3,612,610)
Interest rate derivatives:	(4,741)	(20,791)	(38,081)	12,196	17,713	(33,704)
– Inflow	1,829	28,421	77,236	547,580	228,568	883,634
– Outflow	(6,570)	(49,212)	(115,317)	(535,384)	(210,855)	(917,338)
Total inflow	**23,583,131**	**30,054,825**	**44,183,366**	**42,181,331**	**8,646,359**	**148,649,012**
(Total outflow)	**(22,663,885)**	**(29,408,198)**	**(44,295,665)**	**(41,117,043)**	**(7,777,273)**	**(145,262,064)**

2015						
Derivatives held for trading	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Foreign exchange derivatives:	1,558,115	1,739,445	1,475,404	(1,806,517)	(1,207,017)	1,759,430
– Inflow	23,521,509	11,659,292	21,402,437	9,573,309	2,256,618	68,413,165
– Outflow	(21,963,394)	(9,919,847)	(19,927,033)	(11,379,826)	(3,463,635)	(66,653,735)
Interest rate derivatives:	(633)	(19,957)	(24,629)	28,506	60,472	43,759
– Inflow	7,376	91,693	541,979	1,761,854	864,766	3,267,668
– Outflow	(8,009)	(111,650)	(566,608)	(1,733,348)	(804,294)	(3,223,909)
Derivatives held for hedging:						
Foreign exchange derivatives:	(15,230)	1,123	(67,681)	95,502	228,513	242,227
– Inflow	2,706	1,123	11,010	1,334,715	651,433	2,000,987
– Outflow	(17,936)	-	(78,691)	(1,239,213)	(422,920)	(1,758,760)
Interest rate derivatives:	(4,702)	(21,664)	(55,814)	(109,453)	(30,909)	(222,542)
– Inflow	12,590	45,028	194,717	1,016,733	446,745	1,715,813
– Outflow	(17,292)	(66,692)	(250,531)	(1,126,186)	(477,654)	(1,938,355)
Total inflow	**23,544,181**	**11,797,136**	**22,150,143**	**13,686,611**	**4,219,562**	**75,397,633**
(Total outflow)	**(22,006,631)**	**(10,098,189)**	**(20,822,863)**	**(15,478,573)**	**(5,168,503)**	**(73,574,759)**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

(g) Operational risk

The "Basic Indicator Method" that is mentioned in "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué published in the Official Gazette No. 29511 on November 23, 2015 is used in the annual operational risk calculation of the Parent Bank. The amount subject to the operational risk is calculated by using the statutory gross income of the Parent Bank in 2013, 2014, and 2015.

In accordance with above Communiqué, annual gross income is calculated by deduction of profit/loss derived from the sale of available-for-sale assets and held-to-maturity securities, extraordinary income and indemnity insurance gains from the total of net interest income and non-interest income.

	31.12.2013	31.12.2014	31.12.2015	Total/Positive GI year number	Ratio (%)	Total
Gross income	8,506,114	8,997,640	10,207,953	3	15	1,385,585
Amount subject to Operational Risk (Amount*12,5)						17,319,817

(h) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair values at 31 December 2016 and 2015:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans and advances to customers	181,024,088	183,424,570	154,949,085	155,527,494
Held-to-maturity investments (Net)	17,976,870	17,932,174	10,688,440	10,840,922
Financial liabilities				
Customer deposits	200,010,473	199,243,912	173,640,026	173,738,867
Interbank money market deposits, funds borrowed and debt securities in issue	46,117,960	45,282,195	38,667,695	38,229,506

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments that are carried at amortized cost:

(i) Financial assets

The fair values of certain financial assets carried at cost, including cash and balances with the Central Bank of Turkey, due from other banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value. The credit risk is not considered when calculating the fair value of loans and advances to customers as in line with the pricing of such loans except loans and advances to customers with short maturity.

The fair value of listed held-to-maturity investments has been estimated based on quoted market prices at balance sheet dates.

(ii) Financial liabilities

The estimated fair value of deposits with no maturity is the repayable amount at demand.

The estimated fair value of interest-bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

A discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads to calculate the estimated fair value of funds borrowed and debt securities in issue.

(i) Fair value hierarchy:

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3- Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value and assets and liabilities carried at amortized cost for which fair value is disclosed in Note 5 (h), according to the foregoing principles is given in the table below:

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

	2016			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities	**63,921**	**-**	**-**	**63,921**
- Government bonds	9,865	-	-	9,865
- Eurobonds	-	-	-	-
- Government bonds denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	7,268	-	-	7,268
- Other bonds	46,788	-	-	46,788
Trading Derivative Financial Instrument	**2,642**	**7,618,296**	**-**	**7,620,938**
Hedging Derivative Financial Instrument	**-**	**807,874**	**-**	**807,874**
Securities Available-for-sale	**34,572,009**	**222,051**	**-**	**34,794,060**
- Government bonds	17,912,731	-	-	17,912,731
- Eurobonds	11,328,132	-	-	11,328,132
- Treasury bills	-	-	-	-
- Government bonds denominated in foreign currency	-	-	-	-
- Mutual funds	212,244	-	-	212,244
- Equity securities	-	54,344	-	54,344
- Other Bonds	5,118,902	167,707	-	5,286,609
Assets for which fair values are disclosed (*)	**17,932,174**	**183,424,570**	**-**	**201,356,744**
- Loans and advances to customers	-	183,424,570	-	183,424,570
- Held-to-Maturity Investments	17,932,174	-	-	17,932,174
Government debt securities	15,205,027	-	-	15,205,027
Other marketable securities	2,727,147	-	-	2,727,147
Total assets	**52,570,746**	**192,072,791**	**-**	**244,643,537**
Liabilities carried at fair value:				
Trading derivative financial instruments	**4,389**	**4,595,458**	**-**	**4,599,847**
Hedging derivative financial instruments	**-**	**98,991**	**-**	**98,991**
Liabilities for which fair values are disclosed (*)	**-**	**244,526,107**	**-**	**244,526,107**
- Customer Deposits	-	199,243,912	-	199,243,912
- Interbank money market deposits, funds borrowed and debt securities in issue	-	45,282,195	-	45,282,195
Total liabilities	**4,389**	**249,220,556**	**-**	**249,224,945**

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 5 (h).

	2015			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities	**40,513**	**-**	**-**	**40,513**
- Government bonds	9,996	-	-	9,996
- Eurobonds	107	-	-	107
- Government bonds denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	6,532	-	-	6,532
- Other bonds	23,878	-	-	23,878
Trading Derivative Financial Instrument	**-**	**2,697,157**	**-**	**2,697,157**
Hedging Derivative Financial Instrument	**-**	**651,368**	**-**	**651,368**
Securities Available-for-sale	**43,029,205**	**342,399**	**-**	**43,371,604**
- Government bonds	19,376,723	-	-	19,376,723
- Eurobonds	15,929,478	-	-	15,929,478
- Treasury bills	-	-	-	-
- Government bonds denominated in foreign currency	-	-	-	-
- Mutual funds	270,627	-	-	270,627
- Equity securities	-	115,958	-	115,958
- Other Bonds	7,452,377	226,441	-	7,678,818
Assets for which fair values are disclosed (*)	**10,840,922**	**155,527,494**	**-**	**166,368,416**
- Loans and advances to customers	-	155,527,494	-	155,527,494
- Held-to-Maturity Investments	10,840,922	-	-	10,840,922
Government debt securities	10,840,922	-	-	10,840,922
Other marketable securities	-	-	-	-
Total assets	**53,910,640**	**159,218,418**	**-**	**213,129,058**
Liabilities carried at fair value:				
Trading derivative financial instruments	**-**	**1,767,851**	**-**	**1,767,851**
Hedging derivative financial instruments	**-**	**158,960**	**-**	**158,960**
Liabilities for which fair values are disclosed (*)	**-**	**211,968,373**	**-**	**211,968,373**
- Customer Deposits	-	173,738,867	-	173,738,867
- Interbank money market deposits, funds borrowed and debt securities in issue	-	38,229,506	-	38,229,506
Total liabilities	**-**	**213,895,184**	**-**	**213,895,184**

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 5 (h).

NOTE 5 – FINANCIAL RISK MANAGEMENT (Continued)

As explained in the Note 2-e, share certificates, that are classified as available-for-sale and are carried at cost less impairment since they are not traded in active markets and their fair values cannot be measured reliably, are not shown in the table above.

There are no transfers between the 1st and the 2nd levels in the current year.

(j) Capital management

Total capital amount and Capital adequacy ratio have been calculated in accordance with the "Regulation on Equity of Banks" and "Regulation on Measurement and Assessment of Capital Adequacy of Banks".

As of 31 December 2016, Group's total capital has been calculated as TL 34,871,848, the capital adequacy ratio is 14.16 %. As of 31 December 2015, Group's total capital amounted to TL 30,410,851, Capital adequacy ratio was 14.46 % calculated pursuant to former regulations. This ratio is well above the minimum ratio required by the legislation.

(k) Fiduciary activities

The Group provides custody services to third parties which involve the Group in the making of allocation, purchase and sale decisions. Assets held in a fiduciary capacity are not included in these financial statements. At 31 December 2016, the Group has custody accounts amounting to TL 48,092,532 in nominal value (31 December 2015: TL 50,756,267).

NOTE 6 - SEGMENT REPORTING

The Group operates in business segments including consumer banking, commercial banking, SME banking, corporate-investment and private banking, treasury and international banking. These segments have been determined considering customer segments and branch network providing services to customers in accordance with the Bank's organizational structure.

The profitability system generating segment information provides profitability information on the basis of account customer, customer relationship manager, branch segment and product. This information is made available to the branch and Head Office personnel through a web-based management reporting system.

Consumer banking offers a variety of retail services such as deposit accounts, consumer loans, commercial installment loans, credit cards, insurance products and asset management services. The consumer banking products and services also include bank cards, investment funds trading, automatic payment services, foreign currency trading, safe deposit box rentals, cheques, money transfers, investment banking, telephone and internet banking.

Corporate Banking and Commercial Banking and SME Banking provide financial solutions and banking services to large, medium and small size corporate and commercial customers. The products and services offered to corporate and commercial customers include TL and foreign currency denominated working capital loans financing for investments, foreign trade financing, derivative instruments for hedging purposes of foreign currency and interest risk, letters of credit, foreign currency trading, corporate finance services and deposit and cash management services. In addition, the Bank provides timely and permanent solutions for corporate customers’ working capital management, delivers cash management services tailored based on customers’ requests that include collection and payment services and liquidity and information management. Project finance loans are provided within the context of investment banking activities. In the scope of private banking, The Bank serves the members of the high-income customers who have expectations for upper-class service quality both in banking and investment transactions.

The Treasury Unit conducts TL and FC spot and forward transactions, treasury bonds, government bonds, Eurobond and private sector bond transactions and also derivative trading activities within determined limits. These transactions are performed according to the Bank’s requirements. Furthermore, Treasury Unit also carries out marketing and pricing activities of treasury products for customers and branch network. The Treasury Unit also serves in fundamental areas such as providing long-term funding opportunities, creating funding facility at lower prices that fully reflect country risk, diversifying funding resources and creating a base of international investors for that purpose.

Other Business segments consist of the operations of Ak Finansal Kiralama A.Ş., Ak Yatırım Menkul Değerler A.Ş., Ak Portföy Yönetim A.Ş. and Akbank (Dubai) Limited which are consolidated as subsidiary of Bank.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 6 - SEGMENT REPORTING (Continued)

Segment information at 31 December 2016 and 2015 is as follows:

	31 December 2016				
Banking	**Consumer Banking**	**Commercial Banking, SME Banking, Corporate-Investment and Private Banking**	**Treasury**	**Other and Unallocated**	**Bank's Total Activities**
Segment information regarding the balance sheet:					
Segment assets	49,730,567	145,233,988	80,365,298	5,486,012	280,815,865
Equity securities					71,264
Unallocated assets					11,351,498
Total assets					**292,238,627**
Segment liabilities	84,517,496	85,380,641	76,168,415	4,483,349	250,549,901
Unallocated liabilities					8,530,910
Equity					33,157,816
Total liabilities and equity					**292,238,627**
Segment information regarding the income statement:					
Segment revenue	3,770,534	5,607,269	941,882	343,453	10,663,138
Segment result	1,621,783	4,258,167	816,233	(497,959)	6,198,224
Dividend income				2,658	2,658
Income taxes				(1,269,792)	(1,269,792)
Profit for the year	**1,621,783**	**4, 258,167**	**816,233**	**(1,765,093)**	**4,931,090**
Other segment items					
Capital expenditure	-	-	-	445,335	445,335
Depreciation and amortization	(28,821)	(22,529)	(75)	(167,317)	(218,742)
Other non-cash expenses	(543,166)	(840,898)	(109,719)	(758,242)	(2,252,025)

	31 December 2015				
Banking	**Consumer Banking**	**Commercial Banking, SME Banking, Corporate-Investment and Private Banking**	**Treasury**	**Other and Unallocated**	**Bank's Total Activities**
Segment information regarding the balance sheet:					
Segment assets	46,937,932	119,250,746	74,539,137	4,599,381	245,327,196
Equity securities					132,717
Unallocated assets					5,052,713
Total assets					**250,512,626**
Segment liabilities	72,470,086	74,965,764	64,179,646	3,421,422	215,036,918
Unallocated liabilities					6,872,179
Equity					28,603,529
Total liabilities and equity					**250,512,626**
Segment information regarding the income statement:					
Segment revenue	2,678,700	4,713,930	640,096	694,461	8,727,187
Segment result	434,637	3,632,355	732,671	(572,866)	4,226,797
Dividend income				2,275	2,275
Income taxes				(871,921)	(871,921)
Profit for the year	**434,637**	**3,632,355**	**732,671**	**(1,442,512)**	**3,357,151**
Other segment items					
Capital expenditure	-	-	-	159,528	159,528
Depreciation and amortization	(40,894)	(23,904)	(462)	(160,840)	(226,100)
Other non-cash expenses	(961,397)	(491,120)	(183,562)	(728,915)	(2,364,994)

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 7 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY

Cash and due from banks comprises as follows:

	2016	2015
Cash funds:		
Cash on hand (*)	1,699,814	1,440,324
Cash in transit	140,680	25,749
Purchased cheques	8	39
	1,840,502	**1,466,112**
Current accounts and demand deposits:		
Central Bank of Turkey	11,415,171	4,261,396
Foreign banks	6,469,517	4,591,004
Domestic banks	3,093	765
	17,887,781	**8,853,165**
Time deposits:		
Central Bank of Turkey	21,756,612	19,745,931
Foreign banks	1,192,942	802,973
Domestic banks	2,720,626	3,420,421
	25,670,180	**23,969,325**
Interbank money market placements	**37**	**98**
Total cash and due from banks and the balances with the Central Bank of Turkey	**45,398,500**	**34,288,700**

(*) Includes precious metal accounts amounting to TL 4,947 (31 December 2015: 56,414).

At 31 December 2016, assets pledged as off-shore reserve requirements, payment accounts in connection with the issue of floating-rate notes and restricted demand and time deposits in foreign banks amount to TL 5,356,843 (2015: TL 3,146,252) (Note 26).

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 7 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY (continued)

Cash and cash equivalents included in the statements of cash flows for the year ended 31 December 2016 and 2015 are as follows:

	2016	2015
Cash and due from banks excluding accrued interest and blocked accounts (*)	12,780,711	7,081,753
Trading and investment securities with original maturities of less than three months excluding accrued interest	46,740	27,688
Total	**12,827,451**	**7,109,441**

(*) Mainly include collateral amounts kept at banks for borrowings.

The reserve requirements are promulgated by communiqués issued by the Central Bank of Turkey ("the Central Bank").

	2016	2015
The balances with the Central Bank of Turkey:		
- TL	4,228,312	1,230,328
- Foreign currency	28,943,471	22,776,999
Total	**33,171,783**	**24,007,327**

The amounts of the reserve requirements are computed on the basis of the liabilities identified and at the rates prescribed in the related regulations.

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD,EUR and standard gold. CBRT started paying interest on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014.

The reserve rates for TL liabilities vary between 4% and 10.5% for TL deposits and other liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 11.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4.5% and 24.5% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 25% for all foreign currency liabilities).

NOTE 8 - TRADING SECURITIES

The breakdown of trading securities is as follows:

	2016	2015
Government bonds	9,865	9,996
Eurobonds	-	107
Government bonds denominated in foreign currency	-	-
Treasury bills	-	-
Share certificates	7,268	6,532
Other	46,788	23,878
Total	**63,921**	**40,513**

As of 31 December 2016, security pledged under repurchase agreements with financial institutions is TL 569 (31 December 2015: TL 1,489).

Trading securities amounting to TL 9,721 (31 December 2015: TL 8,463) have been pledged as collateral to financial institutions.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters mainly into the following derivative financial instruments:

"Currency forwards" represent commitments to purchase or to sell foreign or domestic currency, including spot transactions. "Foreign currency futures" are contractual obligations to receive or pay a net amount based on changes in currency rates or to buy or sell foreign currency at a future date at a specified price established in an organized financial market. Since future contracts are collateralized by cash or marketable securities and changes in the future contract value are settled daily with the exchange rate, the credit risk is negligible.

"Currency and interest rate options" are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer ("OTC"). The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. The Group's "credit risks" represent the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the consolidated statements of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held at 31 December 2016 and 31 December 2015 are set out in the following table.

	2016		**2015**	
	Fair values		**Fair values**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives held for trading:				
Currency and interest rate swap purchases and sales	6,886,370	(3,900,878)	2,276,767	(1,260,511)
Options purchases and sales	262,589	(289,772)	222,214	(257,902)
Currency and interest rate futures purchases and sales	-	-	-	-
Forward currency purchases and sales	471,979	(409,197)	198,176	(249,438)
Other purchases and sales	-	-	-	-
Derivatives held for hedging:				
Currency and interest rate swap purchases and sales	807,874	(98,991)	651,368	(158,960)
Total derivative assets/(liabilities)	**8,428,812**	**(4,698,838)**	**3,348,525**	**(1,926,811)**

The notional amounts of derivative transactions are explained in detail in Note 27.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2016, contractual amounts of derivative financial instruments designated as hedging instruments and the net fair values carried in the balance sheet are summarized in the following table:

	Current Period 31 December 2016			Prior Period 31 December 2015		
	Notional Amount	**Assets**	**Liabilities**	**Notional Amount**	**Assets**	**Liabilities**
Interest Rate and Cross Currency Swaps						
-TL	2,497,225	682,966	-	1,228,638	648,858	-
-FC	20,894,823	124,908	98,991	11,575,795	2,510	158,960
Total	**23,392,048**	**807,874**	**98,991**	**12,804,433**	**651,368**	**158,960**

1. Explanations on Net Investment Hedge:

The Group has been using net investment hedging strategy to hedge foreign currency risk born of EURO 320 million which represents share premiums and paid-in-capital of Akbank AG, one of its subsidiaries, with EUR0 320 million of syndication loans used by the Group have been classified as "hedge instruments".

2. Explanations on Fair Value Hedges:

Current Period - 31 December 2016

Hedging Instrument	Hedged Item	Risk Exposure	Fair Value Difference of Hedging Instrument	Fair Value Difference of Hedged Items (*)	Ineffective Portion (**)
Interest Rate Swap	Fixed interest rate FC available-for-sale financial assets	Interest rate risk	(94,580)	89,557	(5,023)
Interest Rate Swap	Fixed interest rate Lease Receivables	Interest rate risk	260	(246)	14
Cross-currency swap	Fixed interest rate FC Issued Eurobond, FC Lease Receivables	Interest rate and currency risk	599	(732)	(133)
Cross-currency swap	Fixed interest rate TL Mortgage Loans Portfolio, FC borrowings	Interest rate and currency risk	784,031	(776,488)	7,543

(*) Includes fair value differences arising from changes in foreign exchange rates for hedges against interest rate and foreign currency from the interest rate and foreign exchange risks.

(**) Represents the cumulative amounts booked under "Gains / (Losses) on Derivative Financial Transactions" and "Gains/ (Losses) on Foreign Exchange Transactions" since the beginning of hedge accounting

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Prior Period - 31 December 2015

Hedging Instrument	Hedged Item	Risk Exposure	Fair Value Difference of Hedging Instrument	Fair Value Difference of Hedged Items (*)	Ineffective Portion (**)
Interest Rate Swap	Fixed interest rate FC available-for-sale financial assets	Interest rate risk	(175,849)	170,936	(4,913)
Interest Rate Swap	Fixed interest rate FC Issued Bonds, FC Lease Receivables	Interest rate and currency risk	88	(93)	(5)
Cross-currency swap	Fixed interest rate TL Mortgage Loans, FC borrowings	Interest rate and currency risk	412	(447)	(35)
Cross-currency swap	Fixed interest rate TL available-for-sale financial assets, FC borrowings	Interest rate and currency risk	236,846	(233,961)	2,885
Cross-currency swap	Fixed interest rate TL available-for-sale financial assets, FC borrowings	Interest rate and currency risk	312,135	(307,153)	4,982

(*) Includes fair value differences arising from changes in foreign exchange rates for hedges against interest rate and foreign currency from the interest rate and foreign exchange risks.
(**) Represents the cumulative amounts booked under "Gains / (Losses) on Derivative Financial Transactions" and "Gains/ (Losses) on Foreign Exchange Transactions" since the beginning of hedge accounting.

As at 31 December 2016 fair value hedge transactions have been proven to be effective.

In addition, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked are given below:

- As at 31 December 2016, related to fair value hedge transactions, the remaining net amount after amortization of the fair value change of the hedged items since the beginning of hedge accounting is TL 12,845 (31 December 2015: TL 8,588).

3. Explanation on Cash Flow Hedge

Current Period - 31 December 2016

Hedging instrument	Hedged item	Nature of risk hedged	Hedging instrument FV		Net gain/(loss) recognized in OCI during the period	Net gain(loss) reclassified to income statement during the year	Ineffective portion recognized in income statement (Net)
			Assets	Liabilities			
Interest Rate Swap	Floating-rate long term FC funds borrowed	Cash Flow risk due to changes in interest rate of funds	94,338	-	78,608	(9,850)	-

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Prior Period - 31 December 2015

Hedging Instrument	Hedged Item	Risk Exposure	Fair Value Difference of Hedging Instrument	Fair Value Difference of Hedged Items (*)	Ineffective Portion (**)
Cross-currency swap	Floating Interest Rate Securities Issues Eurobond FC, FC Lease Receivables	Interest rate and Currency risk	(911)	842	(69)
Cross-currency swap	Floating Interest Rate FC Loan Portfolio, FC Lease Receivables	Interest rate and Currency risk	557	(602)	(45)
Interest Rate Swap	Floating Interest Rate FC Loan Porftolio	Interest rate risk	(81)	75	(6)

As of 31 December 2016 cash flow hedge transactions have been determined as effective.

In addition, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked with the information related discontinuous transactions are given below:

- As of 31 December 2016, related to cash flow hedge transactions, the remaining before tax amount in equity after amortization of the fair value change of the hedging instruments, since the beginning of hedge accounting is TL (43,790) (31 December 2015: TL (75,471)).

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

Distribution of the loan portfolio of the Group by nature is as the following:

	2016	2015
Consumer loans	**29,431,667**	**28,674,271**
- Mortgage	13,569,841	13,446,919
- General purpose	15,483,543	14,687,963
- Automobile	378,283	539,389
- Other	-	-
Credit cards	**12,819,216**	**12,530,316**
- Retail	10,660,590	10,898,805
- Corporate	2,158,626	1,631,511
Corporate, commercial and small business loans	**141,430,811**	**116,049,885**
- Export financing loans	7,016,252	6,937,609
- Loans to financial institutions	7,133,246	6,348,565
- Leasing receivables	4,943,431	3,935,289
- Project finance loans	26,431,817	23,426,197
- Commercial installment loans	8,535,009	7,425,305
- Other	87,371,056	67,976,920
Performing loans	**183,681,694**	**157,254,472**
Impaired loans	4,420,613	3,487,591
Total loans and advances to customers	**188,102,307**	**160,742,063**
Provision for impairment	(7,078,219)	(5,792,978)
Net loans and advances to customers	**181,024,088**	**154,949,085**

The loans and advances to customers include finance lease receivables, as shown below:

	2016	2015
Gross investment in finance leases	5,951,223	4,773,456
Less: Unearned finance income	854,370	(723,899)
Total investment in finance leases	5,096,853	4,049,557
Provision for impairment	(113,614)	(91,106)
Net investment in finance leases	**4,983,239**	**3,958,451**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Gross lease rentals receivable and the net investment in direct financing leases have the following collection schedules:

	2016		2015	
	Gross investment in finance leases	**Total investment in finance leases**	**Gross investment in finance leases**	**Total investment in finance leases**
Period ending				
2016	-	-	1,535,717	1,306,606
2017	1,990,387	1,728,439	1,009,706	822,731
2018	1,242,683	1,018,701	784,343	656,898
2019	932,451	780,873	892,889	794,458
2020(*)	1,785,702	1,568,840	550,801	468,864
Total	**5,951,223**	**5,096,853**	**4,773,456**	**4,049,557**

(*) Balances include the year 2020 and thereafter.

The Group has provided an individual impairment for impaired loans amounting to TL 3,911,436 (31 December 2015: TL 3,204,259). As of 31 December 2016 total amount of provision for impairment provided by the Group, which amounts to TL 7,078,219 (31 December 2015: 5,792,978) represents the total amount of individual and collective provision on loans and advances.

Movements in the provision for loan losses are as follows:

	2016			
	Commercial loans	**Consumer loans and credit cards**	**Leasing receivables**	**Total**
1 January 2016	**2,679,248**	**3,022,624**	**91,106**	**5,792,978**
Additions	1,297,181	1,160,712	34,256	2,492,149
Collections	(207,055)	(518,520)	(11,748)	(737,323)
Write-offs(*)	(107,093)	(362,492)	-	(469,585)
31 December 2016	**3,662,281**	**3,302,324**	**113,614**	**7,078,219**

(*) The Parent Bank has sold non-performing loan portfolio of TL 450,1 million, for which 100% provision was provided, for an amount of TL 49,1 million to Güven Varlık Yönetimi A.Ş. Specific provision previously allocated for this amount is, included in "Write-off" section in above table.

	2015			
	Commercial loans	**Consumer loans and credit cards**	**Leasing receivables**	**Total**
1 January 2015	**2,016,841**	**2,254,267**	**68,426**	**4,339,534**
Additions	979,442	1,427,603	29,640	2,436,685
Collections	(182,014)	(452,290)	(6,902)	(641,206)
Write-offs(*)	(135,021)	(206,956)	(58)	(342,035)
31 December 2015	**2,679,248**	**3,022,624**	**91,106**	**5,792,978**

(*) TL 248,5 million (in full TL amount) of the Bank's non-performing loan portfolio were sold to Girişim Varlık Yönetimi A.Ş. at a price of TL 40,3 million (in full TL amount). Specific provision previously allocated for this amount is, included in "Write-off" section in above table.

Loans and advances to related parties are as follows:

	2016	**2015**
Loans and advances to related parties	4,591,797	3,421,775
Less: Cash collateral obtained	-	-
Net loans and advances to related parties	**4,591,797**	**3,421,775**

Loans and advances to the public sector and private sector are as follows:

	2016	**2015**
Private sector	186,118,501	159,221,130
Public sector	1,983,806	1,520,933
Total loans and advances to customers	**188,102,307**	**160,742,063**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 11 - INVESTMENT SECURITIES

(a) Securities available-for-sale:

	2016	2015
Debt securities		
- Government bonds	17,912,731	19,376,723
- Eurobonds	11,328,132	15,929,478
- Treasury bills	-	-
- Government bonds denominated in foreign currency	-	-
- Other bonds	5,286,609	7,678,818
Equity securities		
- Listed	-	-
- Unlisted	71,264	132,717
- Mutual Funds	212,244	270,627
Total securities available-for-sale	**34,810,980**	**43,388,363**

Unrealized gain and losses arising from changes in the fair value of securities classified as "available-for-sale" are recognized as "other reserves" in other comprehensive income unless there is an objective evidence that the asset is impaired in which case the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss.

Government bonds, eurobonds and treasury bills under trading and investment securities are issued by the Government of the Republic of Turkey. Other bonds mainly represent bonds issued by corporate and other financial institutions.

(b) Securities held-to-maturity

	2016	2015
Debt securities		
- Government bonds	13,091,240	9,654,713
- Other government debt securities	2,370,665	1,033,727
- Other Marketable Securities	2,514,965	-
Total securities held-to-maturity*	**17,976,870**	**10,688,440**

As at 31 December 2016, investment securities subject to repurchase agreements amount to TL 27,019,037 (31 December 2015: TL 26,114,866); and those given as collateral/blocked amount to TL 4,298,063 (31 December 2015: TL 3,976,566).

Government bonds, Eurobonds and treasury bills under trading and investment securities are issued by the Government of the Republic of Turkey. Other bonds mainly represent bonds issued by corporate and other financial institutions.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 11 - INVESTMENT SECURITIES (Continued)

The movement of held-to-maturity securities is as follows:

	2016	2015
Balance at 1 January	10,688,439	10,800,111
Additions (*)	5,882,218	382
Redemptions	(130,259)	(1,112,849)
Exchange differences	1,269,337	864,389
Impairment Provision (-)	(100,753)	(63,740)
Change in Amortized Cost	367,888	200,147
Balance at 31 December	**17,976,870**	**10,688,440**

(*) Due to the change of intention, The Bank has classified its Government Debt Securities with the notional amount EUR 96,359 thousand and USD 1,591,672 thousand from Available For Sale Fınancial Assets portfolio to Held to Maturity Securities portfolio in the current year. As of classification date, the book value which reflects the fair value of the related securities are EUR 98,531 thousand and USD 1,650,112 thousand respectively and these amounts are accepted as the new costs of related securities. The Marketable Securities Valuation Differences of classified securities are amortized throughout the remaining term of held to maturity investments by using effective interest rate method.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment and vehicles	Constructions in progress	Leasehold improvements	Total
At 31 December 2015					
Cost	719,055	988,790	1,656	124,313	1,833,814
Accumulated depreciation	(234,777)	(713,451)	-	(89,456)	(1,037,684)
Net book amount	**484,278**	**275,339**	**1,656**	**34,857**	**796,130**
Opening net book amount	484,278	275,339	1,656	34,857	796,130
Additions	1,727	204,376	5,664	9,558	221,325
Disposals	(1,041)	(710)	-	(3,881)	(5,632)
Depreciation charge (Note 25)	(7,447)	(109,383)	-	(13,633)	(130,463)
Transferred	4,576	-	(4,936)	360	-
Closing net book amount	**482,093**	**369,622**	**2,384**	**27,261**	**881,360**
At 31 December 2016					
Cost	723,527	1,153,832	2,384	122,117	2,001,860
Accumulated depreciation	(241,434)	(784,210)	-	(94,856)	(1,120,500)
Net book amount	**482,093**	**369,622**	**2,384**	**27,261**	**881,360**

At 31 December 2016, no impairment has been recorded on property, plant and equipment (31 December 2015: None).

	Land and buildings	Equipment and vehicles	Constructions in progress	Leasehold improvements	Total
At 31 December 2014					
Cost	715,424	985,242	2,495	137,269	1,840,430
Accumulated depreciation	(223,447)	(668,582)	-	(85,047)	(977,076)
Net book amount	**491,977**	**316,660**	**2,495**	**52,222**	**863,354**
Opening net book amount	491,977	316,660	2,495	52,222	863,354
Additions	-	73,275	5,467	6,084	84,826
Disposals	(1,153)	(1,269)	-	(6,012)	(8,434)
Depreciation charge (Note 25)	(12,299)	(113,327)	-	(17,990)	(143,616)
Transferred	5,753	-	(6,306)	553	-
Closing net book amount	**484,278**	**275,339**	**1,656**	**34,857**	**796,130**
At 31 December 2015					
Cost	719,055	988,790	1,656	124,313	1,833,814
Accumulated depreciation	(234,777)	(713,451)	-	(89,456)	(1,037,684)
Net book amount	**484,278**	**275,339**	**1,656**	**34,857**	**796,130**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 13 - INTANGIBLE ASSETS

	2016	2015
Cost	800,726	576,407
Accumulated depreciation	(439,199)	(352,302)
Net book amount	**361,527**	**224,105**
Opening balance at 1 January	224,105	229,004
Disposals (-)	-	-
Additions	224,038	74,285
Charge for the year (net)	(86,616)	(79,184)
Net book amount	**361,527**	**224,105**

NOTE 14 - OTHER ASSETS AND PRE-PAYMENTS

The principal components of other assets and pre-payments are as follows:

	2016	2015
Derivative collaterals	1,159,323	418,371
Receivables from cheques in clearance	418,721	513,180
Miscellaneous receivables	202,991	469,141
Pre-payments	371,531	260,269
Receivables from credit card payments	16,418	16,902
Fund management fee accruals	5,911	4,292
Other	475,791	405,819
Total	**2,650,686**	**2,087,974**

NOTE 15 – CUSTOMER DEPOSITS

The breakdown of deposits according to type and maturity is as follows:

	2016			2015		
	Demand	Time	Total	Demand	Time	Total
Saving deposits	14,430,486	76,583,302	91,013,788	11,275,748	67,455,714	78,731,462
Commercial deposits	14,439,994	55,450,574	69,890,568	9,864,791	43,581,000	53,445,791
Funds deposited under repurchase agreements	-	26,042,669	26,042,669	-	24,169,208	24,169,208
Bank deposits	972,501	6,229,124	7,201,625	256,697	12,661,189	12,917,886
Other	566,747	5,295,076	5,861,823	1,028,244	3,347,435	4,375,679
	30,409,728	**169,600,745**	**200,010,473**	**22,425,480**	**151,214,546**	**173,640,026**

At 31 December 2016, deposits of TL 9,736,546 (31 December 2015: TL 8,663,832) were from Sabancı Holding Group companies and other related parties. The total interest expense paid to related party deposits is TL 768,969 (31 December 2015: TL 635,498) for the year ended 31 December 2016.

NOTE 16 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED AND DEBT SECURITIES IN ISSUE

	2016	2015
Interbank money market deposits	**1,277,373**	**80,031**
Domestic banks		
- TL	294,726	286,556
- Foreign currency	472,133	520,324
Foreign institutions	19,121,117	19,133,648
Funds borrowed	**19,887,976**	**19,940,528**

NOTE 16 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED AND DEBT SECURITIES IN ISSUE (Continued)

Interbank money market deposits represent borrowings from Istanbul Settlement and Custody Bank and the interbank money market which is regulated by the Central Bank of Turkey.

Funds borrowed from domestic banks mainly represent funds obtained from Turkish Eximbank to finance certain export loans given to customers, under prevailing regulations.

As of 31 December 2016, Akbank has three outstanding syndicated loan facilities.

The first outstanding syndicated loan facility comprising of two tranches amounting to EUR 787,8 million and USD 327 million with maturities of 1 year and 3 years with a cost of EURIBOR+100 bps/ LIBOR +110 bps, and EURIBOR +190 bps, respectively was signed on 18 August 2016.

The second outstanding facility was signed on 18 March 2016 comprising of two tranches amounting to EUR 783,5 million and USD 370,4 million with a maturity of 1 year and with a cost of EURIBOR+75 bps and LIBOR +85 bps respectively.

The third outstanding 3-year facility was signed on 9 July 2015 amounting to USD 335 million with a cost of LIBOR+185 bps.

Debt securities in issue

Debt securities consist of USD, EUR, RON and TL denominated securities.

The balances amounting to USD (000) 6,018,520 and EUR (000) 309,498 consist of securitization deals and other currencies TL (000) 186,568 consist of RON, JPY, CZK and HUF denominated securities issued by the Group. The repayment schedule of the total USD, EUR, RON, JPY, CZK and HUF denominated notes in issue is as follows:

	31 December 2016				
	USD (000)	TL	EUR (000)	TL	Other TL
2016(*)	-	-	-	-	-
2017	818,289	2,864,011	63,951	235,960	42,361
2018	1,264,595	4,426,083	75,074	277,001	63,823
2019	503,712	1,762,992	93,317	344,312	80,384
2020	979,197	3,427,190	45,802	168,996	-
2021	436,553	1,527,936	23,062	85,092	-
2022	762,934	2,670,269	321	1,184	-
2023	434,528	1,520,848	309	1,140	-
2024	373,192	1,306,172	297	1,096	-
2025	380,722	1,332,527	285	1,052	-
2026	39,512	138,292	274	1,011	-
2027	20,524	71,834	264	974	-
2028	4,762	16,667	253	933	-
2029	-	-	6,289	23,205	-
Total	**6,018,520**	**21,064,821**	**309,498**	**1,141,956**	**186,568**

As of 31 December 2016, the outstanding TL denominated bonds with the maturity of up to 3 months are TL 987,990, with the maturity of 4 months are TL 299,259, with the maturity of 6 months are TL 48,085, with the maturity of 2 year are TL 223,708, and with the maturity of over 5 years are TL 997,225.

NOTE 16 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED AND DEBT SECURITIES IN ISSUE (Continued)

	31 December 2015				
	USD (000)	**TL**	**EUR (000)**	**TL**	**Other TL**
2016	620,933	1,788,288	50,520	158,747	44,573
2017	751,749	2,165,036	63,708	200,183	35,515
2018	995,023	2,865,667	63,693	200,136	52,110
2019	301,974	869,684	47,846	150,342	42,472
2020	747,277	2,152,158	332	1,043	-
2021	53,713	154,693	319	1,002	-
2022	404,224	1,164,165	307	965	-
2023	28,490	82,051	295	927	-
2024	735,720	2,118,874	283	889	-
2025	325,773	938,226	272	855	-
2026	11,000	31,680	261	820	-
2027	11,000	31,680	251	789	-
2028	-	-	241	757	-
2029	-	-	6,043	18,988	-
Total	**4,986,876**	**14,362,202**	**234,371**	**736,443**	**174,670**

(*) Repayments include accrued interest payables in the amount.

As of 31 December 2015, the outstanding TL denominated bonds with the maturity of up to 3 months are TL 568,089, with the maturity of 4 months are TL 917,737, with the maturity of 6 months are TL 62,858, with the maturity of 1 year are TL 765,023, and with the maturity of over 5 years are TL 1,060,114.

NOTE 17 - TAXATION

	2016	**2015**
Current income tax expense	1,069,329	919,344
Deferred tax expense/(income)	200,463	(47,423)
Income tax expense	**1,269,792**	**871,921**
Income taxes currently payable	1,011,344	851,510
Prepaid taxes	(722,185)	(472,427)
Income taxes payable	**289,159**	**379,083**

(a) Income taxes currently payable

Turkish tax legislation does not permit a parent Bank and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

In Turkey, corporate tax rate is 20%. Corporate tax is calculated on the total income of the Bank after adjusting for certain disallowable expenses, tax-exempt income and other allowances. No further tax is payable unless the profit is distributed.

NOTE 17 - TAXATION (Continued)

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%.

An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax. Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance taxes paid by corporations are credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set-off against other liabilities to the government.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special fund account under liability for five years.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

Information on taxation in foreign associates are given below:

Akbank AG (Germany)

German-resident corporations (i.e. corporations with legal or business centers located in Germany) are subject to corporate taxation in Germany over their total income. Regardless of any profit distribution corporate tax is levied at 15% over total income. Effective corporate tax rate is 15.825% since an additional solidarity tax of 5.5% is applied over the calculated corporate tax. In addition to that, trade income tax at an approximate rate of 16% is levied by the local city governance. Accordingly, the total tax burden including all types of tax (corporate tax, solidarity tax and trade income tax) is approximately 32%.

Akbank (Dubai) Limited (United Arab Emirates)

Akbank Dubai, operating in Dubai International Finance Center, is not subject to taxes according to the legislations of this country.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and if they find any corrections than the tax amount to be paid might be changed as well.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 17 - TAXATION (Continued)

The movement of current income taxes at 31 December 2016 and 2015 is as follows;

	2016	**2015**
Balance at 1 January	**379,083**	**325,142**
Current taxes charged to income statement	1,069,329	919,344
Current taxes charged to equity	(57,985)	(67,834)
Less: Taxes paid	(1,101,268)	(797,569)
	289,159	**379,083**

The reconciliation between the expected and the actual taxation charge is stated below:

	2016	**2015**
Profit before income taxes and minority interest	6,200,882	4,229,072
Theoretical tax charge at the applicable tax rate 20%	1,240,176	845,814
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income exempt from taxation	(67,752)	(21,482)
Non-deductible expenses	97,368	47,589
	1,269,792	**871,921**

(b) Deferred income taxes

Deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income under the liability method using enacted tax rates in related jurisdictions.

The movement of deferred income taxes at 31 December 2016 and 2015 as follows;

	2016	**2015**
Deferred tax asset, net at 1 January	**643,339**	**428,316**
Deferred income tax recognized in income statement	(200,463)	47,423
Deferred income tax recognized in equity	(31,273)	167,600
Deferred tax asset/(liability), net at 31 December	**411,603**	**643,339**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 17 - TAXATION (Continued)

The deferred tax asset and liability represents the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return, in accordance with the applicable tax law. The temporary differences giving rise to deferred income tax assets and deferred tax liabilities are as follows:

Cumulative	**Deferred income tax temporary differences**		**Assets/(liabilities)**	
	2016	**2015**	**2016**	**2015**
Temporary differences on financial instruments	(1,940,777)	(2,755,925)	373,205	567,683
Employment benefit obligations	(228,082)	(192,906)	45,483	38,502
Other temporary differences	(516,689)	(534,492)	103,336	106,898
Gross deferred income assets			**522,024**	**713,083**
Reversal of country risk provision	191,197	140,736	(61,183)	(45,036)
Differences between book value and tax base of property, plant and equipment	246,191	123,540	(49,238)	(24,708)
Gross deferred income liabilities			**(110,421)**	**(69,744)**
			411,603	**643,339**
Net deferred income tax assets			**639,322**	**700,791**
Net deferred income tax liabilities			**227,719**	**57,452**

NOTE 18 - OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December 2016, principal components of the other liabilities are payables to point of sale acquiring merchants, payables on cheques in clearance, non-income related taxes and withholdings, unearned commission income and bonus liability to customers.

Payables to point of sale acquiring merchants include amounts owed to merchants related with credit card transactions in which the transacted amount will be paid to the merchants on a term basis.

At 31 December 2016, payables to point of sale acquiring merchants of TL 414,591 (31 December 2015: TL 334,756) were from Sabancı Holding Group companies and other related parties.

(Amounts expressed in thousands of Turkish lira (“TL”) unless otherwise stated.)

NOTE 19 - EMPLOYMENT BENEFIT OBLIGATIONS

	2016	2015
Balance sheet obligations for:		
- Reserve for employment termination benefits	146,104	124,027
- Accrual for unused vacation	81,978	68,879
- Post-employment benefits (pension and medical)	-	-
Total	**228,082**	**192,906**

There is no amount recognized in the balance sheet for post-employment benefits since fair value of the Fund’s plan assets compensate defined benefit obligations for the years ended 2016 and 2015.

	2016	2015
Income statement charge for:		
- Post-employment benefits (pension and medical)	(175,248)	(154,457)
- Reserve for employment termination benefits	(49,704)	(62,388)
- Accrual for unused vacation	(13,099)	(8,277)
Total	**(238,051)**	**(225,122)**

The charge for the post-employment benefits representing the cash contributions to the Fund by the Group. Reserve for employment termination benefits and unused vacation have been included in employee costs under operating expenses (Note 25).

(a) Post-employment benefits (pension and medical)

The surplus unrecognized in the balance sheet is determined as follows:

	2016	2015
Present value of funded obligations	(1,184,939)	(986,395)
- Pension benefits transferrable to SSI	(1,635,774)	(1,377,543)
- Post-employment medical benefits transferrable to SSI (*)	768,218	666,933
- Other non-transferrable benefits	(317,383)	(275,785)
Fair value of plan assets	1,394,112	1,288,959
Surplus	**209,173**	**302,564**

(*) The amount of the post-employment medical benefits transferrable to SSI is calculated over the net present value of medical liabilities and health premiums.

NOTE 19 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The Bank's personnel are members of the "Akbank T.A.Ş. Personnel Pension Fund Foundation" ("Pension Fund") established in accordance with the Social Security Law numbered 506, article No.20. The financial statements of the Pension Fund have been audited as of year ends by an independent actuary in accordance with the 38th article of the Insurance Supervisory Law and the "Actuarial Regulation" based on the same article.

Temporary 23rd article paragraph ("the paragraph") 1 of the Banking Law No 5411 published in the Official Gazette no 25983 dated 1 November 2005 envisaged that Banks would transfer their pension funds to the Social Security Institution ("SSI") within three years following the publication date of the Banking Law, and regulated the principles of this transfer. The first paragraph of the related article was rescinded as from the 31 March 2007, the publication date of the decision of the Constitutional Court dated 22 March 2007. The reasoned decree regarding the rescission of the mentioned paragraph was published in the Official Gazette numbered 26731, dated 15 December 2007.

Following the publication of the reasoned decree of the Constitutional Court, Turkish Grand National Assembly commenced to work on a new law regarding the transfer of the members of funds to the Social Security Institution; the related articles of the Social Security Law ("New Law") numbered 5754 regarding the transfer of the funds, were ratified by the TGNA General Meeting on 17 April 2008 and came into effect following the publication in the Official Gazette numbered 26870, dated 8 May 2008.

The main opposition party had appealed to the Constitutional Court for the cancellation of some of the articles of the New Law including transfer of the Funds to the SSI on 19 June 2008. The Constitution Court has dismissed the appeal with the decision taken in the meeting dated 30 March 2011. The reasoned decision has been published in the Official Gazette numbered 28156 dated 28 December 2011.

The New Law was requiring that present value of post-employment benefits at the transfer date shall be calculated by a commission consisting of the representatives of SSI, Ministry of Finance, Undersecretariat of Treasury, Undersecretariat of State Planning Organization, BRSA, SDIF and banks and funds, by using a technical discount rate of 9.8 percent taking into consideration the transferrable contributions and payments of the funds including any monthly payment differences paid by the funds above the limits within the framework of SSI regulations. Accordingly the transfer required by the New Law was to be completed until 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years. Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the ''Social Insurance and General Health Insurance Law no. 5510'' published on the Official Gazette no. 28227 dated 8 March 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated 30 April 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 and numbered 29335.

According to the New Law, following the transfer of the members of the fund to the SSI, the funds and institutions will continue to provide the non-transferrable social benefits and payments which are included in the articles of association of the fund.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 19 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

With respect to that, according to the technical balance sheet report as at 31 December 2016 prepared considering the related articles of the New Law regarding the transferrable benefit obligations for the non-transferrable social benefits and payments which are included in the articles of association, the Fund has no technical or actual deficit which requires a provision. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank's financial statements.

Additionally, the Bank management is of the opinion that the possible obligation amount to arise during and after the transfer to be made within the framework described above will be at a reasonable level that can be met by the Fund's assets and will not bring any additional burden for the Bank.

The consolidated affiliates do not have the above mentioned retirement benefit plans for their employees. The retirement related benefits of the employees of the consolidated affiliates are subject to the Social Security Institution and other defined contribution plans.

The Group's obligation in respect of the post-employment benefits transferrable to SSI has been calculated by a registered actuary. In this context, the value of the obligation regarding these benefits to be transferred to SSI as of the balance sheet date would equal the approximate payment amount that would need to be made to SSI as part of the transfer. The actuarial parameters and results used for the calculation of this amount reflect the provisions of the New Law for the post-employment pension and medical benefits transferrable to SSI (e.g. a technical interest rate of 9.80%). Accordingly, as of 31 December 2016, the surplus of the Fund, including the obligation for other non-transferable benefits of TL 317,383 (31 December 2015: TL 275,785) amounts to TL 209,173 (31 December 2015: TL 302,564).

The principal actuarial assumptions used were as follows:

	2016	2015
Discount rate	(%)	(%)
- Pension benefits transferrable to SSI	9.80	9.80
- Post-employment medical benefits transferrable to SSI	9.80	9.80
- Other non-transferrable benefits	4.49	4.27

Mortality rate:

The average life expectancy in years of a pensioner retiring at age 60 for men, 58 for women determined using mortality table depending on statistical data is 17 years for men and 23 years for women.

The movement in the fair value of plan assets of the year is as follows:

	2016	2015
Beginning of year	**1,288,959**	**1,205,692**
Actual return on plan assets	198,804	166,008
Employer contributions	175,248	154,457
Employee contributions	149,708	132,086
Benefits paid	(418,607)	(369,284)
End of year	**1,394,112**	**1,288,959**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 19 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Plan assets are comprised as follows:

	2016		**2015**	
Bank placements	999,280	72%	938,789	73%
Premises and equipment	19,135	1%	18,739	1%
Securities	279,076	20%	240,010	19%
Other	96,621	7%	91,421	7%
Period end	**1,394,112**	**100%**	**1,288,959**	**100%**

(b) Employment termination benefits

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, who dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

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

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of its employees.

IAS 19 "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	2016	**2015**
Discount rate (%)	3.64	4.17
Turnover rate to estimate the probability of retirement (%)	94.07	93.88

The principal actuarial assumption is that the current maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 4,426.16 (1 January 2016: TL 4,092.53) effective from 1 January 2017 has been taken into consideration in calculating the reserve for employee termination benefits.

Movements in the reserve for employment termination benefits during the year are as follows:

	2016	**2015**
1 January	**124,027**	**67,034**
Increase during the year	49,704	62,388
Actuarial loss/(gain)	20,240	63,770
Paid during the year	(47,867)	(69,165)
End of year	**146,104**	**124,027**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 20 - SHARE CAPITAL

The historic amount of share capital of the Group is TL 4,000,000 (31 December 2015: TL 4,000,000) and consists of TL 4,000,000 (31 December 2015: TL 400,000,000,000) authorized shares with a nominal value of Kr 1 each.

At 31 December 2016 and 2015, the issued and fully paid-in share capital held is as follows:

	Audited 31 December 2016		Audited 31 December 2015	
	Share (%)	**TL**	**Share (%)**	**TL**
Total Sabancı Group, affiliated companies and family	48.86	1,954,225	48.86	1,954,225
Citibank Overseas Investment Corporation	-	-	-	-
Other	51.14	2,045,775	51.14	2,045,775
Historical share capital	100	4,000,000	100	4,000,000
Adjustment to share capital	-	1,529,151	-	1,529,151
Total paid-in share capital		**5,529,151**		**5,529,151**

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at 31 December 2004 after elimination of the accumulated deficit of TL 1,464,503.

NOTE 21 - RETAINED EARNINGS AND LEGAL RESERVES

For the year ending 31 December 2016, the Bank has paid dividend payment in cash with respect to 31 December 2015 net distributable profit after the transfer of first and legal reserves amounting to TL 600,000 (TL 0.0015 per share).

For the year ending 31 December 2015 the Bank has paid dividend payment in cash with respect to 31 December 2014 net distributable profit after the transfer of first and legal reserves amounting to TL 569,600 (TL 0.0014 per share).

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

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 22 - NET INTEREST INCOME

	2016	2015
Interest income on:		
Loans and advances to customers	15,376,016	12,661,634
Investment and trading securities	3,189,980	2,909,443
Deposits with banks	352,696	248,095
Other interest income	42,943	35,901
Total interest income	**18,961,635**	**15,855,073**

	2016	2015
Interest expense on:		
Deposits	8,047,471	6,161,481
Funds borrowed	598,231	436,249
Interbank money market deposits	1,000,344	899,474
Interest on debt securities in issue	791,182	744,167
Other interest expenses	33,938	24,997
Total interest expense	**(10,471,166)**	**(8,266,368)**

NOTE 23 - NET FEE AND COMMISSION INCOME

	2016	2015
Fee and commission income on:		
Credit Cards	1,563,926	1,449,051
Retail and commercial banking operations	549,242	628,073
Mutual fund management fee	83,824	77,406
Insurance intermediary	226,172	200,304
Non-cash loans	202,294	179,670
Money transfers	212,931	167,396
Brokerage commission	107,757	93,074
Other	179,378	169,837
	3,125,524	**2,964,811**
Fee and commission expense on:		
Credit cards	(437,056)	(396,094)
Other	(105,194)	(70,752)
	(542,250)	**(466,846)**
Net fee and commission income	**2,583,274**	**2,497,965**

NOTE 24 - NET TRADING INCOME/(LOSS)

	2016	2015
Derivative financial instruments	396,195	(550,013)
Trading and available-for-sale securities	185,446	226,135
	581,641	**(323,878)**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 25 - OPERATING EXPENSES

	2016	**2015**
Employee costs	1,813,528	1,680,638
Credit card and banking services	382,743	504,803
Legal expenses	125,791	133,874
Depreciation charges of property, plant and equipment (Note 12)	130,463	143,616
Marketing and advertisement expenses	131,620	120,577
Computer maintenance and support expenses	246,443	190,728
Communication expenses	136,465	125,347
Saving deposits insurance fund	181,180	185,266
Sundry taxes and duties	182,887	176,930
Heating, lighting and water expenses	48,517	47,728
Amortization of other intangible assets (Note 13)	86,616	79,184
Repair and maintenance expenses	25,820	23,497
Stationery expenses	26,160	16,783
Operating lease expenses	187,913	177,543
Other (*)	758,768	751,292
	4,464,914	**4,357,806**

(*) The balance shown in the "other" line includes fees and commissions reimbursements as per the decision of Consumer Arbitration Board, Courts and Offices of Enforcement amounting to TL 92,180 (31 December 2015: TL 217,281). In addition, as a result of the audit performed by Ministry of Customs and Trade in accordance with Consumer Protection Law - No: 6502, an administrative fine amounting to TL 116,254 is notified to the Bank. Part of the related fine amounting to TL 87,191, calculated as a result of %25 cash allowance according to the Misdemeanor Law - No: 5326 Provisional Article 17/6, is represented in this row.

Post-employment benefits (pension and medical) paid, reserve for employment termination benefit and accrual for unused vacation rights for the year ended 31 December 2016 which amount to TL 175,248 (31 December 2015: TL 154,457), TL 49,704 (31 December 2015: TL 62,388) and TL 13,099 (31 December 2015: TL 8,277), respectively are included in the employee costs.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 26 – TRANSFERRED FINANCIAL ASSETS HELD OR PLEDGED AS COLLATERAL

(a) Assets Pledged:

	2016		2015	
	Assets	**Related liability**	**Assets**	**Related liability**
Balances with other banks (Note 7)	5,356,843	28,007,020	3,146,252	24,576,998
Trading securities (Note 8)	9,721	-	8,463	-
- legal requirements	9,721	-	8,463	-
Investment securities (Note 11)				
- available-for-sale	2,062,303	-	1,939,145	-
- legal requirements	2,062,303	-	1,939,145	-
- held-to-maturity	2,235,760	-	2,037,421	-
- legal requirements	2,235,760	-	2,037,421	-
Total	**9,664,627**	**28,007,020**	**7,131,281**	**24,576,998**

(b) Transferred Assets that are not Derecognized:

	2016		2015	
	Assets	**Related liability**	**Assets**	**Related liability**
Trading securities (Note 8)				
- repurchase agreement	569	-	1,489	-
Investment securities (Note 11)				
- available-for-sale	16,282,871	16,445,198	20,185,224	19,078,289
- repurchase agreement	16,282,871	16,445,198	20,185,224	19,078,289
- held-to-maturity	10,736,166	9,597,471	5,929,642	5,090,919
- repurchase agreements	10,736,166	9,597,471	5,929,642	5,090,919
Total	**27,019,606**	**26,042,669**	**26,116,355**	**24,169,208**

NOTE 27 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated balance sheets, including letters of guarantee, acceptance credits, letters of credit and off-balance sheet derivative instruments, The management does not expect any material losses as a result of these transactions, The following is a summary of significant commitments and contingent liabilities:

(a) Legal proceedings

The bank has accounted a provision amounting to TL 61,076 (31 December 2015: TL 10,312) for the contingent liabilities with a high probability of realization regarding continuing opposing trials. There are also some other opposing trials. In Addition the probability of realization of these trials is low so no cash outflow expected regarding these trials.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 27 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

(b) Commitments under derivative instruments:

The breakdown of notional amounts of derivative transactions at 31 December 2016 and 2015 is as follows:

			2016			
	USD	**EUR**	**GBP**	**Other**	**TL**	**Total**
Derivatives held for trading:						
Currency forward transactions	5,640,939	3,779,083	30,499	52,063	3,360,716	12,863,300
Swap transactions	68,301,416	23,477,634	1,417,449	1,071,527	36,717,307	130,985,333
- Currency rate swaps	34,631,183	15,599,505	1,417,449	1,071,527	35,263,207	87,982,871
- Interest rate swaps	33,670,233	7,878,129	-	-	1,454,100	43,002,462
Spot transactions	5,829,882	494,783	2,176	17,794	1,912,937	8,257,572
Option transactions	32,080,691	5,312,566	36,211	121,755	5,594,038	43,145,261
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	6,279,859	522,551	-	368,271	-	7,170,681
Derivatives held for hedging:						
Swap transactions	12,038,348	25,422	-	8,407	-	12,072,177
- Interest rate swaps	8,788,883	25,422	-	-	-	8,814,305
- Currency rate swaps	3,249,465	-	-	8,407	-	3,257,872
Total purchases	**130,171,135**	**33,612,039**	**1,486,335**	**1,639,817**	**47,584,998**	**214,494,324**
Derivatives held for trading:						
Currency forward transactions	4,227,278	2,810,169	15,158	23,232	5,839,309	12,915,146
Swap transactions	73,085,910	24,832,105	36,729	638,616	31,219,378	129,812,738
- Currency rate swaps	39,415,677	16,953,976	36,729	638,616	29,765,278	86,810,276
- Interest rate swaps	33,670,233	7,878,129	-	-	1,454,100	43,002,462
Spot transactions	2,430,727	417,457	9,594	58,896	5,402,098	8,318,772
Option transactions	32,664,084	5,243,550	35,480	121,755	5,254,831	43,319,700
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	4,668,397	430,309	-	-	55,333	5,154,039
Derivatives held for hedging:						
Swap transactions	8,788,883	33,762	-	-	2,497,225	11,319,870
- Interest rate swaps	8,788,883	25,422	-	-	-	8,814,305
- Currency rate swaps	-	8,340	-	-	2,497,225	2,505,565
Total sales	**125,865,279**	**33,767,352**	**96,961**	**842,499**	**50,268,174**	**210,840,265**
Off-balance sheet net notional position	**4,305,856**	**(155,313)**	**1,389,374**	**797,318**	**(2,683,176)**	**3,654,059**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 27 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

			2015			
	USD	**EUR**	**GBP**	**Other**	**TL**	**Total**
Derivatives held for trading:						
Currency forward transactions	2,045,851	2,797,980	13,552	-	2,647,607	7,504,990
Swap transactions	45,206,428	12,610,243	1,493,726	733,167	12,868,152	72,911,716
- Currency rate swaps	22,648,310	6,380,409	1,493,726	733,167	11,458,152	42,713,764
- Interest rate swaps	22,558,118	6,229,834	-	-	1,410,000	30,197,952
Spot transactions	788,266	260,926	5,851	17,054	1,097,048	2,169,145
Option transactions	25,838,482	3,668,125	39,007	30,685	4,938,312	34,514,611
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	4,333,944	33,281	-	2,607	373,089	4,742,921
Derivatives held for hedging:						
Swap transactions	6,590,218	25,404	-	48,294	-	6,663,916
- Interest rate swaps	4,766,533	25,404	-	-	-	4,791,937
- Currency rate swaps	1,823,685	-	-	48,294	-	1,871,979
Total purchases	**84,803,189**	**19,395,959**	**1,552,136**	**831,807**	**21,924,208**	**128,507,299**
Derivatives held for trading:						
Currency forward transactions	2,654,712	1,453,056	5,540	10,810	3,481,417	7,605,535
Swap transactions	36,708,996	15,780,319	17,306	16,240	16,993,295	69,516,156
- Currency rate swaps	14,150,878	9,550,485	17,306	16,240	15,583,295	39,318,204
- Interest rate swaps	22,558,118	6,229,834	-	-	1,410,000	30,197,952
Spot transactions	1,304,196	255,427	13,505	7,150	575,112	2,155,390
Option transactions	26,405,931	2,830,996	39,007	30,685	5,336,490	34,643,109
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	3,223,942	33,282	-	2,955,280	455,008	6,667,512
Derivatives held for hedging:						
Swap transactions	4,808,498	103,381	-	-	1,228,638	6,140,517
- Interest rate swaps	4,766,533	25,404	-	-	-	4,791,937
- Currency rate swaps	41,965	77,977	-	-	1,228,638	1,348,580
Total sales	**75,106,275**	**20,456,461**	**75,358**	**3,020,165**	**28,069,960**	**126,728,219**
Off-balance sheet net notional position	**9,696,914**	**(1,060,502)**	**1,476,778**	**(2,188,358)**	**(6,145,752)**	**1,779,080**

The above table summarizes the Group's derivative transactions. Each derivative transaction represents a simultaneous receivable and payable to be received and paid, on a future date, in respective currencies, Accordingly, the difference between the "sale" and "purchase" transactions represents the net exposure of the Group with respect to commitments arising from these transactions.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 27 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The related party balances in forward currency purchase/sale and swap transactions are as follows:

	2016			2015		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Currency forward purchases	1,464,374	2,486,997	3,951,371	714,413	103,769	818,182
Currency forward sales	(1,344,679)	(2,506,391)	(3,851,070)	(113,605)	(709,072)	(822,677)
Currency swap purchases	317,928	-	317,928	66,250	-	66,250
Currency swap sales	-	(383,250)	(383,250)	-	(72,000)	(72,000)
Interest rate swap purchases	-	803,677	803,677	-	847,569	847,569
Interest rate swap sales	-	(803,677)	(803,677)	-	(847,569)	(847,569)
Option purchases	-	-	-	-	-	-
Option sales	-	-	-	-	-	-
Spot purchases	-	-	-	-	-	-
Spot sales	-	-	-	-	-	-
Other purchases	-	-	-	-	13,617	13,617
Other sales	-	-	-	-	(13,617)	(13,617)
Net position	**437,623**	**(402,644)**	**34,979**	**667,058**	**(677,303)**	**(10,245)**

(c) Credit related commitments:

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk, Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 27 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The following table shows the outstanding credit related commitments of the Group at 31 December 2016 and 2015:

	2016			2015		
	Up to 1 year	**Over 1 year**	**Total**	**Up to 1 year**	**Over 1 year**	**Total**
Letters of guarantee issued by the Group						
- Turkish lira	2,509,799	11,211,636	13,721,435	795,856	11,067,323	11,863,179
- Foreign currency	1,442,701	11,987,656	13,430,357	667,487	10,020,598	10,688,085
Acceptance credits						
- Turkish lira	-	-	-	-	-	-
- Foreign currency	3,569,372	13,857	3,583,229	920,299	12,931	933,230
Letter of credit						
- Turkish lira	260	-	260	396	-	396
- Foreign currency	2,358,258	2,874,258	5,232,516	3,828,236	1,530,504	5,358,740
Other guarantees						
- Turkish lira	36,149	2,218,608	2,254,757	52,773	1,846,606	1,899,379
- Foreign currency	1,707,973	416,609	2,124,582	1,524,823	88,888	1,613,711
	11,624,512	**28,722,624**	**40,347,136**	**7,789,870**	**24,566,850**	**32,356,720**

Included in the letters of guarantee and acceptance credits are guarantees amounting to TL 900,600 (31 December 2015: TL 1,447,302) for related parties at 31 December 2016.

The economic sector risk concentrations for outstanding credit related commitments of the Group are as follows:

	2016	**2015**
Financial institutions	6,434,627	4,684,261
Electricity, gas, water	2,069,335	2,671,156
Chemicals	3,038,954	3,217,408
Small-scale retailers	3,886,301	3,490,727
Construction	4,845,122	3,858,576
Steel and mining	2,086,619	1,771,624
Wholesaling	8,348,394	6,142,290
Automotive	962,269	863,646
Other manufacturing	1,454,656	1,607,157
Food and beverage	616,372	455,109
Electronics	639,372	421,013
Textile	988,336	823,825
Transportation	1,170,173	318,507
Agriculture and forestry	54,738	53,886
Tourism	246,249	187,588
Telecommunications	153,924	61,116
Other	3,351,695	1,728,831
Total	**40,347,136**	**32,356,720**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 28 - MUTUAL FUNDS

As of 31 December 2016, the Group is the founder of 44 mutual funds (31 December 2015: 43 mutual funds) with an unaudited total fund value of TL 3,916,212 (31 December 2015: TL 3,283,444). The shares of the mutual funds established in accordance with the Capital Markets Board legislation are kept dematerialized by Istanbul Settlement and Custody Bank, Inc.

NOTE 29 - RELATED PARTY TRANSACTIONS

A number of transactions were entered into with related parties in the normal course of business.

(a) Balances with related parties:

	2016	2015
Loans and receivables, net	4,591,797	3,421,775
Finance lease receivables	88,173	97,992
Total Assets	**4,679,970**	**3,519,767**
Customer Deposit (Note 15)	9,736,546	8,663,832
Total Liabilities	**9,736,546**	**8,663,832**
Credit related commitments	900,600	1,447,302
Commitment under derivative instruments (*)	10,110,973	3,501,482
Total Commitments and contingent liabilities	**11,011,573**	**4,948,784**

(*) Figures presented in the table above show the total of "sale" and "purchase" amounts of the related transactions.

As at 31 December 2016, the Group has repurchase commitments amounting to TL 31,913 (31 December 2015: TL 20,072) with Sabancı Holding Group companies and other related parties.

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 29 - RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties:

	2016	**2015**
Interest income on loans	371,473	253,718
Interest income	**371,473**	**253,718**
Interest expense on deposits (Note 15)	768,969	635,498
Interest expense	**768,969**	**635,498**

(c) Balances with senior management and Board of Directors and their related parties:

	2016	**2015**
Customer Deposits	1,249,200	926,599
Total due to customers	**1,249,200**	**926,599**

Key management personnel of the bank

For the period ended 31 December 2016, total remuneration of the senior management and Board of Directors of the Bank amounted to TL 38,600 (31 December 2015: TL 36,406).

As at 31 December 2016 and 2015 other balances with directors and other key management personnel are immaterial.

NOTE 30 – SUBSEQUENT EVENTS

It is decided in the Board of Directors meeting dated 11 January 2017, to increase the upper limit of Bank's authorized capital by TL 2,000,000 from TL 8,000,000 to TL 10,000,000 and to extend the allowed duration for upper limit of authorized capital until the end of 2021.

At the meeting of the Board of Directors on February 27, 2017, the Ordinary General Assembly Meeting of the Bank has been decided to be held on on March 28, 2017, Tuesday, at 14:00, at the Akbank Head Office, Sabancı Center 4. Levent, Istanbul.

In the Board of Directors Meeting of the Bank held on February 27, 2017, it has been decided to propose to General Assembly to distribute a TL 900,000 cash dividend over the TL 4,528,712 net unconsolidated income from 2016 operations to the Bank's shareholders. It has been also proposed in BOD meeting to allocate TL 139,885 as Special Reserve Account, TL 70,000 as Legal Reserves and the remaining profit as Extraordinary Reserves.