AKBANK T.A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2017
TOGETHER WITH THE INDEPENDENT
AUDITOR’S REPORT

INDEPENDENT AUDITOR'S REPORT

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

Qualified opinion

In our opinion, except for the effect of the matter on the consolidated financial statements described in the basis for qualified opinion paragraph below, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Akbank T.A.Ş. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for qualified opinion

The accompanying consolidated financial statements as at 31 December 2017 include a free provision amounting to TL 700,000 thousand and the related deferred tax asset of TL 140,000 thousand. Out of this provision amount TL 500,000 thousand together with its related deferred tax asset of TL 100,000 is provided in the current year and TL 200,000 thousand together with its related deferred tax asset of TL 40,000 thousand is recognized in prior years by the Bank management considering the circumstances that may arise from possible changes in the economy and market conditions.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

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Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC"), "Regulation on Independent Audit of Banks" published by the Turkish Banking Regulation and Supervision Agency on the Official Gazette No.29314 dated 2 April 2015 and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Impairment of loans and advances The Group has total provision for impairment of TL 7,173,417 thousands in respect to loans and advances of TL 212,706,936 which represent a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2017. Explanations and notes related to provision for impairment of loans and advances are presented in note 10 in the accompanying consolidated financial statements as at 31 December 2017. The reason we focused on this area during our audit is; the significance of loans and advances and the importance of estimation of impairment provision related to these loan and advances. Timely and correctly identification of loss event, methodologies and models used for impairment computation, forecasts for future cash flows, valuation of collaterals and other judgements made by the management have significant impacts on the amount of impairment provision for loans. Therefore, this area is considered as key audit matter.	Within our audit procedures, we assessed and tested the design and operating effectiveness of the relevant controls with respect to identification of which loans and advances are impaired and the calculation of impairment provision. We have carried credit review on a selected sample of loans and advances with the objective to identify whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner. We tested individually impaired loans on a sample basis and checked the calculation for impairment provision by testing the forecasts of future cash flows and assessed the reasonableness of the assumptions. We assessed the appropriateness of the methodology and models used to calculate the provision including any changes in parameters and assumptions used in the models where the impairment was calculated on a modelled basis for collectively assessed portfolios. Based on our discussions with the Bank management, we evaluated whether key assumptions and other judgements underlying the estimation of impairment provision were reasonable.

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Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Valuation of Pension Fund Obligations Explanations on Valuation of Pension Obligations are presented in note 19 in the accompanying consolidated financial statements as at 31 December 2017. The Bank's Personnel Pension Fund Foundation (Pension Fund) is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). Council of Ministers is authorized to determine the transfer date. The total obligation of the fund is estimated using different methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. The Bank's management uses external actuaries for the purpose of valuations of pension obligations. The reason we focused on this area during our audit is; the importance of the actuarial and economic assumptions such as transferrable social benefits, discount rates, salary increases, demographic assumptions used in the valuation of pension obligation and the significant impact that may arise from the possible change in the assumptions used in the evaluation of pension fund liabilities.	Within our audit we tested on a sample basis the accuracy of the employee data supplied by the Bank management to the external actuarial firm for the purpose of valuation of pension obligation. In addition, we verified the existence and values of the Pension Fund assets. Through use of our actuarial specialist, we assessed the reasonableness of assumptions and judgments made by the external actuaries in the calculation of the liability.

Other Matter

The consolidated financial statements of the Bank and its consolidated subsidiaries as at 31 December 2016 were audited by another auditor, whose report dated 28 March 2017 expressed a qualified opinion for the related consolidated financial statements for the inclusion of a general reserve for possible risks amounting to TL 200,000 thousand and deferred tax asset amounting to TL 40,000 thousand, provided by the Bank management and carried forward from 2014, for considering the circumstances that may arise from possible changes in the economy and market conditions.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, 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.

Those charged with governance 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 ISA 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 ISA, we exercise professional judgment and maintain professional scepticism 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 management.

- Conclude on the appropriateness of management'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 those charged with governance 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 provide those charged with governance 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 those charged with governance, 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.

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

Talar Gül, SMMM
Partner

Istanbul, 27 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

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

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey	7	46,945,251	45,398,500
Trading securities	8	39,890	63,921
Derivative financial instruments	9	9,452,333	8,428,812
Loans and advances to customers	10	212,706,936	181,024,088
Investment securities:			
- Available-for-sale	11	42,833,711	34,810,980
- Held-to-maturity	11	18,883,032	17,976,870
Property, plant and equipment	12	3,425,916	881,360
Intangible assets	13	478,542	361,527
Deferred income tax assets	17	704,899	639,322
Current tax asset		-	2,561
Other assets and pre-payments	14	4,169,950	2,650,686
Total assets		**339,640,460**	**292,238,627**
LIABILITIES			
Deposits and obligations under repurchase agreements	15	230,305,804	200,010,473
Interbank money market deposits	16	507,522	1,277,373
Derivative financial instruments	9	5,498,739	4,698,838
Funds borrowed	16	22,251,065	19,887,976
Debt securities in issue	16	29,132,358	24,949,611
Income taxes payable	17	751,696	289,159
Other liabilities and accrued expenses	18	9,078,541	7,511,580
Employment benefit obligations	19	300,953	228,082
Deferred tax liabilities	17	482,836	227,719
Total liabilities		**298,309,514**	**259,080,811**
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		1,279,940	774,698
Other reserves		942,873	(1,552,908)
Retained earnings		31,869,745	26,697,647
Total shareholders' equity		**41,330,807**	**33,157,686**
Non-controlling interest		139	130
Total equity	21	**41,330,946**	**33,157,816**
Total liabilities and equity		**339,640,460**	**292,238,627**

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

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	1 January 2017- 31 December 2017	1 January 2016- 31 December 2016
Interest income	22	24,389,468	18,961,635
Interest expense	22	(13,096,669)	(10,471,166)
Net interest income		**11,292,799**	**8,490,469**
Fee and commission income	23	3,696,295	3,125,524
Fee and commission expense	23	(722,383)	(542,250)
Net fee and commission income		**2,973,912**	**2,583,274**
Impairment losses on loans and credit related commitments, net	10	(843,377)	(1,754,826)
Foreign exchange gains and losses, net		203,674	364,339
Trading gains and losses, net	24	(733,619)	581,641
Dividend income		2,658	2,658
Other operating income		174,553	398,241
Operating income		**13,070,600**	**10,665,796**
Operating expenses	25	(5,416,365)	(4,464,914)
Profit before income taxes		**7,654,235**	**6,200,882**
Income taxes			
Income tax expense	17	(1,654,953)	(1,069,329)
Deferred tax income	17	72,825	(200,463)
Profit for the period		**6,072,107**	**4,931,090**
Attributable to:			
Equity holders of the Group		6,072,098	4,931,079
Non-controlling interest		9	11
		6,072,107	**4,931,090**
Basic and diluted earnings per share (expressed in TL, full amount, per share)	4	0.0152	0.0123

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	1 January 2017- 31 December 2017	1 January 2016- 31 December 2016
Net profit for the period	**6,072,107**	**4,931,090**
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Gain/(Loss) on available-for-sale financial assets	515,095	(97,598)
Foreign exchange differences on translation of foreign operations	505,242	330,043
Gain/(Loss) from cash flow hedges (effective part of fair value changes)	12,793	78,608
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(252,032)	(175,200)
Tax related to gain and loss recognized directly in equity (*)	(55,171)	38,838
	725,927	**174,691**
Available-for-sale financial assets	(26,243)	39,106
Cash flow hedges	46,597	41,767
Tax related to gain/loss transferred to income statement (**)	(4,071)	(16,175)
Net gain/loss transferred to income statement	**16,283**	**64,698**
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**742,210**	**239,389**
Net other comprehensive income not being reclassified to profit or loss in subsequent periods	**2,258,813**	**(16,192)**
Remeasurement gain/(loss) on defined benefit plans, net of taxes	(43,043)	(16,192)
Property and Plant Revaluation Differences	2,301,856	-
Other comprehensive income net of tax	**3,001,023**	**223,197**
Total comprehensive income, net of tax	**6,072,107**	**5,154,287**
Attributable to:		
Equity holders of the Group	6,072,098	5,154,276
Non-controlling interest	9	11

(*) 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 (103,019), TL (2,559) and TL 50,407 respectively (31 December 2016: TL 19,520, TL (15,722) and TL 35,040).

(**) Tax effects of transfer from available-for-sale reserves and cash flow reserves to profit or loss amount to TL 5,249 and TL (9,320) respectively (31 December 2016: TL (7,821) and TL (8,354)).

AKBANK T.A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Attributable to equity holders of the Group											
	Share capital											
	Share Capital	**Adjustment to share capital**	**Total paid-in share capital**	**Share premium**	**Translation reserve**	**Property and Plant Revaluation Differences**	**AFS reserves**	**Hedge reserves**	**Actuarial reserves**	**Retained Earnings**	**Non-controlling interest**	**Total**
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**	**119**	**28,603,529**
Transfer to share capital	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial Gain and Loss	-	-	-	-	-	-	-	-	(16,192)	-	-	(16,192)
Net unrealized market value gain / (loss) from available-for-sale portfolio	-	-	-	-	-	-	(78,079)	-	-	-	-	(78,079)
Net gain on available-for-sale portfolio transferred to the income statement	-	-	-	-	-	-	(66,088)	-	-	-	-	(66,088)
Net gain and loss recycled to the income statement due to transfer of available-for-sale into held-to-maturity portfolio	-	-	-	-	-	-	97,373	-	-	-	-	97,373
Cash flow hedges, net of tax	-	-	-	-	-	-	-	96,300	-	-	-	96,300
Translation reserve	-	-	-	-	330,043	-	-	-	-	-	-	330,043
Gain on hedges of a net investment in a foreign operation, net of tax	-	-	-	-	-	-	-	(140,160)	-	-	-	(140,160)
Other comprehensive income (expense)	-	-	-	-	330,043	-	(46,794)	(43,860)	(16,192)	-	-	223,197
Profit for the period	-	-	-	-	-	-	-	-	-	4,931,079	11	4,931,090
Total comprehensive income for the period	-	-	-	-	330,043	-	(46,794)	(43,860)	(16,192)	4,931,079	11	**5,154,287**
Dividends paid	-	-	-	-	-	-	-	-	-	(600,000)	-	(600,000)
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**	**130**	**33,157,816**
Balance at 1 January 2017	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**774,698**	**-**	**(1,157,307)**	**(322,490)**	**(73,111)**	**26,697,647**	**130**	**33,157,816**
Transfer to share capital	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial Gain and Loss	-	-	-	-	-	-	-	-	(43,043)	-	-	(43,043)
Net unrealized market value gain (loss) from available-for-sale portfolio	-	-	-	-	-	-	412,076	-	-	-	-	412,076
Net gain on available-for-sale portfolio transferred to the income statement	-	-	-	-	-	-	(134,158)	-	-	-	-	(134,158)
Net gain and loss recycled to the income statement due to transfer of available-for-sale into held-to-maturity portfolio	-	-	-	-	-	-	113,164	-	-	-	-	113,164
Cash flow hedges, net of tax	-	-	-	-	-	-	-	47,512	-	-	-	47,512
Translation reserve	-	-	-	-	505,242	-	-	-	-	-	-	505,242
Gain on hedges of a net investment in a foreign operation, net of tax	-	-	-	-	-	-	-	(201,626)	-	-	-	(201,626)
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	2,301,856	-	-	-	-	-	2,301,856
Other comprehensive income (expense)	-	-	-	-	505,242	2,301,856	391,082	(154,114)	(43,043)	-	-	3,001,023
Profit for the period	-	-	-	-	-	-	-	-	-	6,072,098	9	6,072,107
Total comprehensive income for the period	-	-	-	-	505,242	2,301,856	391,082	(154,114)	(43,043)	6,072,098	9	9,073,130
Dividends paid	-	-	-	-	-	-	-	-	-	(900,000)	-	(900,000)
Balance at 31 December 2017	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**1,279,940**	**2,301,856**	**(766,225)**	**(476,604)**	**(116,154)**	**31,869,745**	**139**	**41,330,946**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	1 January 2017- 31 December 2017	1 January 2016- 31 December 2016
Cash flows from operating activities:			
Profit before income tax		7,654,235	6,200,882
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	12,25	153,953	130,463
Amortization of intangible assets	13,25	121,826	86,616
Provision for loan losses, write off and net of recoveries	10	843,377	1,307,747
Employment termination benefits and other short-term employee benefits		72,871	35,176
(Gain)/loss on foreign exchange and derivative financial instruments		(529,945)	(2,308,260)
Interest accrual(*)		(2,322,016)	1,890,732
Other non-cash items		783,401	(1,069,089)
Taxes paid		(1,610,854)	(1,136,308)
Operating profit before changes in operating assets and liabilities		**5,166,846**	**5,137,959**
Net (increase) in reserve requirements with the Central Bank of Turkey and restricted cash		(1,546,751)	(5,410,842)
Net (increase) in loans and advances to customers		(31,682,848)	(29,277,019)
Net (increase)/decrease in trading securities		24,031	(15,152)
Net decrease/(increase) in other assets and prepayments		(1,519,264)	(565,273)
Net increase in other liabilities and accrued expenses		1,566,961	449,222
Net increase in customer deposits and interbank money market deposits		29,525,480	27,389,794
Net cash from operating activities		**1,534,455**	**(2,291,311)**
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	12	(244,781)	(221,325)
Proceeds from property, plant and equipment	12	10,349	5,632
Purchase of other intangible assets	13	(238,841)	(224,038)
Proceeds from other intangible assets		-	-
Proceeds from investment securities		11,741,414	10,865,802
Purchase of investment securities		(17,616,641)	(7,902,570)
Net cash used in investing activities		**(6,348,500)**	**2,523,501**
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue		11,444,452	31,762,060
Payments of borrowed funds and debt securities in issue		(6,545,836)	(27,092,617)
Dividends paid to equity holders		(900,000)	(600,000)
Net cash (used in)/from financing activities		**3,998,618**	**4,069,443**
Effect of exchange rates on cash and cash equivalents		**685,442**	**1,416,377**
Net increase/(decrease) in cash and cash equivalents		**(129,985)**	**5,718,010**
Cash and cash equivalents at the beginning of the period	7	**12,827,451**	**7,109,441**
Cash and cash equivalents at the end of the period	**7**	**12,697,466**	**12,827,451**

(*) Interest paid is amounting to TL (12,952,618) (31 December 2016: TL (10,289,657)), interest received is amounting to TL 22,341,368 (31 December 2016: TL 17,675,360).

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 2017, the Bank has 800 branches dispersed throughout the country and 1 branch operating outside the country (31 December 2016: 840 branches and 1 branch operating outside the country). As at 31 December 2017, the Group employed 14,253 people (31 December 2016: 14,218 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 2017, approximately 51% of the shares are publicly traded, including the ADRs (31 December 2016: 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 2017 have been approved on 27 March 2018 by S. Hakan Binbaşgil, the Chief Executive Officer and by Türker Tunalı, 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 2017 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 in "Turkish Lira" ("TL"), under the historical cost convention, except for held for trading and available-for-sale financial instruments, property plant and equipment 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 Law, 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 Law 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 2017 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 2018. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) Standards, amendments and interpretations applicable as at 31 December 2017:

Amendments to IAS 7, 'Statement of cash flows'; on disclosure initiative effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2017:

IFRS 12, 'Disclosure of interests in other entities'; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Standards, amendments and interpretations effective after 1 January 2018:

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 15, 'Revenue from contracts with customers'; effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- 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 is applied before the new insurance contracts standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

Amendment to IAS 40, 'Investment property' relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Annual improvements 2014-2016; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

- IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
- IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

IFRIC 22, 'Foreign currency transactions and advance consideration'; effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

Amendment to IAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied, should be accounted for using IFRS 9. This includes the impairment requirements in IFRS 9.

IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

IFRS 17, 'Insurance contracts'; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2018. published by the International Accounting Standards Board ("IASB") in the Official Gazette numbered 29953 dated 19 January 2017.

IFRS 9 will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and general hedge accounting.

The Bank will apply the IFRS 9 requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, with no restatement of comparative periods.

Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and interest (SPPI).
Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVTPL"), amortized cost or fair value through other comprehensive income ("FVOCI"). As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under IAS 39.

Compared to the classification under IAS39, the combined application of the contractual cash flow characteristics and business models as at 1 January 2018 will not have a material effect on the Bank's equity.

Impairment of financial assets

As of 1 January 2018, the Bank will recognize provisions for impairment in accordance with the IFRS 9 requirements according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 22 June 2016 numbered 29750. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA as mentioned in the Section 3 Part VII-c of Explanation on Accounting Policies will be changed by applying the expected credit loss model under IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

These financial assets will be divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk will be recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to Stage 2. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

The Bank will recognize an adjustment to opening retained earnings at 1 January 2018, to reflect the application of the new requirements at the adoption date. The primary impact is attributable to changes in the allowance for credit losses under the new impairment requirements and the related deferred taxes.

The Bank does not expect a significant impact in its impairment provisions for loans and other receivables with the adaptation of IFRS 9 at 1 January 2018.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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.

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.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, retail and private 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**	**2017**	**2016**
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
Ak Portföy Yönetimi A.Ş.	Turkey	100.00	100.00
A.R.T.S. Ltd.	Jersey, Channel Islands	-	-
Akbank (Dubai) Limited (*)	The United Arab Emirates	-	100.00

(*) Liquidation of Akbank (Dubai) Limited which is 100% subsidiary of the Bank has been completed in 2017.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 financial position 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Cash flow and Fair value hedges

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 or liability in the balance sheet for TL denominated fixed rate mortgage loans. Fair value changes which have already been booked in equity, have been reclassified from equity to income statement for TL and FC denominated fixed rate available-for-sale financial assets.

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 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 item is taken out of the equity and reflected on the income statement.

Prospective tests are performed at the inception of the hedge relationships 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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Net Investment Hedge

The Group hedges the net investment risk on Akbank AG 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 2017, 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 2017, the net-off tax amount of TL (559,791) (31 December 2016: TL (358,165)) is accounted under hedge reserves as an investment hedge reserve.

(iii) 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.

(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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 effective interest rate method. Dividends received are included in dividend income.

Available for sale and held to maturity securities portfolio of the Group include Consumer Price Indexed (CPI) Bonds. These securities are valued and accounted according to the effective interest rate method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate at the interim reporting periods.The reference indices used in calculating the actual coupon payment amounts of these assets are based on the Consumer Price Index (CPI) of two months ago. The estimated inflation rate used is updated as the actual inflation rate at year ends.

(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 2017, 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 trade date, which is the date that the asset is delivered to/by the Group.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(j) Interest income and expense

Interest income and expense are recognized in the income statement for all interest earning and bearing instruments on an accrual basis using the effective interest rate method based.

(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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(m) Property, plant and equipment

The Bank has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with "IAS 16 Plant and Equipment" on 31 January 2017. The revaluation difference arising from the valuations made by the appraisal firms authorized by CMB and BRSA, is accounted in Property and Plant Revaluation Differences line under the Shareholders' Equity.

Depreciation is calculated over the cost of property and equipment using the straight-line method over estimated useful lives. The estimated useful lives are stated below:

Buildings	50 years
Vault	5 years
Transportation Vehicles	5 years
Other Property and equipments	2-7 years

The depreciation charge for items remaining in the property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item will remain in property and equipment.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where the carrying amount of an asset is greater than its estimated "Net realizable value amount", it is written down to its "Net realizable value amount" and the impairment loss is charged to the income statement.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales revenue.

Expenditures for the repair and renewal of property and equipment are recognized as expense. The capital expenditures incurred in order to increase the capacity of the tangible asset or to increase the future benefit of the asset are capitalized on the cost of the tangible asset. Capital expenditures include the cost components that increase the useful life, or the capacity of the asset, increase the quality of the product or decrease its costs.

(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.

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

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:

	31 December 2017 (%)	**31 December 2016 (%)**
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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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")

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 IAS 19, actuarial gain and loss 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2017, there are certain reclassifications made on income statement of 31 December 2016.

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.

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

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)

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)

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

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 2017 (31 December 2016: None).

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

	31 December 2017	31 December 2016
Profit attributable to equity holders of the Group	6,072,098	4,931,079
Weighted average number of ordinary shares in issue (1 Kr each)	400,000,000,000	400,000,000,000
Basic and diluted earnings per share (expressed in TL, full amount, per share)	**0.0152**	**0.0123**

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

The Group's core business activities include consumer banking, commercial banking, SME banking, and corporate-investment banking and private banking, treasury transactions and international banking services. The Group performs financial leasing transactions through Ak Finansal Kiralama A.Ş. By nature the Group's activities are principally related to the use of financial instruments. As the main funding source, the Group accepts deposits from customers for various periods and invests these funds in high quality assets with high interest margins. Other than deposits, the Group's most important funding sources are equity, marketable securities issued, money market borrowings and mostly borrowings from foreign financial institutions. The Group follows an asset-liability management strategy that mitigates risk and increases earnings by balancing the funds borrowed and the investments in various financial assets. The main objective of asset-liability management is to limit the Group's exposure to liquidity risk, interest rate risk, currency risk and credit risk while increasing profitability and strengthening the Group's equity. The Asset-Liability Committee ("ALCO") manages the assets and liabilities within the trading limits on the level of exposure placed by the Executive Risk Committee ("ERC").

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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 Vice Chairman, 1 Executive Board Member 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 business units and Chief Risk Officer of the Parent Bank's risk management unit. 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.

(b) Credit risk

Risk limits are defined by Board of Directors in a such manner that covers all possible important risk components, in accordance with the Bank's operations and the size and complexity of products and services. Care is taken to ensure that the risk limits are in line with market expectations and reflect the Bank's risk appetite and Bank's strategies. The credit policies are established in consistence with risk limits.

Credit rating models are used in loan allocation processes in accordance with the risk appetite, credit policies and targets of the Bank. Rating all credit customers is essential for the Bank. Credit ratings are used as the main factor in determining target segments, authority levels, prices, limits and collateralization levels in loan portfolios. Application models are used during initial loan underwriting and behavioral models are used for customers whose previous credit performance could be monitored. Behavioral models are mainly used in the credit monitoring process and in the evaluation process of portfolio risk.

In order to ensure timely and complete fulfillment of all obligations arising from the loan, it is essential to obtain adequate collateral from the customers. The main purpose of collateralization of any loan is to minimize the credit, foreign exchange and maturity risk. In this context, the minimum margin is determined by considering the quality of the collateral and collection expectancy in case of default and it is ensured that appropriate collateral is obtained for the loan type.

Credit risk is encountered when the counterparty is unable to fulfill its obligations defined with the agreement. All credit risk bearing banking products are managed with prudent credit policies and procedures in the Bank. The credit quality of the counterparty is evaluated with an internal rating score in all credit transactions. In order to monitor the credit risk, internal limits are determined on the basis of sector, customer, credit type and customer segment.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Credit risk management is a process in which credit risks are assessed and monitored in a consistent manner, besides all credit portfolios are included on a consolidated basis. During the process of credit risk management, the Risk Management Department conducts measurement, monitoring and reporting activities of the credit risk using statistical models. In addition to the credit risk related risk limits, various concentrations in the loan portfolio are also analyzed. İt is assured to act within the policy of allocation, monitoring, Limit Follow-up and management, by establishing policy regarding to Country risk and concentration risk management. Cost of loan and collections of non-performing loans are monitored periodically. In addition, stress testing and scenario analysis studies are carried out on the loan portfolio.

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 2017 and 2016 is as follows:

	31 December 2017	**31 December 2016**
Above average	39.10%	51.76%
Average	47.07%	36.41%
Below average	13.31%	11.31%
Unrated	0.52%	0.52%

(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:

	31 December 2017			
	Commercial loans	**Consumer loans and credit cards**	**Lease receivables**	**Total**
Standard loans	153,613,754	44,441,358	5,645,009	203,700,121
Close monitoring loans	9,537,906	1,732,752	89,793	11,360,451
Impaired loans	2,191,560	2,341,151	287,070	4,819,781
Gross	**165,343,220**	**48,515,261**	**6,021,872**	**219,880,353**
Provisions	**(4,052,518)**	**(2,911,020)**	**(209,879)**	**(7,173,417)**
Net	**161,290,702**	**45,604,241**	**5,811,993**	**212,706,936**

	31 December 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**

(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;

	31 December 2017			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Past Due 30-60 days	418,903	460,870	2,861	882,634
Past Due 60-90 days	344,577	227,827	5,384	577,788
Past Due over 90 days	6,302,016	-	57,354	6,359,370
Total	**7,065,496**	**688,697**	**65,599**	**7,819,792**

	31 December 2016			
	Commercial 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**

The details of the loans are as follows:

	31 December 2017			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Neither past due nor impaired	156,086,164	45,485,413	5,669,203	207,240,780
Past due and not individually impaired (*)	7,065,496	688,697	65,599	7,819,792
Individually impaired	2,191,560	2,341,151	287,070	4,819,781
Total gross	**165,343,220**	**48,515,261**	**6,021,872**	**219,880,353**
Less: allowance for individually impaired loans	(1,651,263)	(2,341,151)	(156,454)	(4,148,868)
Less: allowance for collectively impaired loans	(2,401,255)	(569,869)	(53,425)	(3,024,549)
Total Allowance for impairment	**(4,052,518)**	**(2,911,020)**	**(209,879)**	**(7,173,417)**
Total net	**161,290,702**	**45,604,241**	**5,811,993**	**212,706,936**

(*) Includes cash loan exposure of USD 1,685 million included accrued interest as at 31 December 2017 (31 December 2016: USD 1,576 million) 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 different restructuring alternatives are being evaluated among the creditor banks and related public authorities, which may also include a change in the shareholder structure of the telecommunication company. It is expected that these negotiations will produce a positive outcome. The related loan is classified "loans and other receivables" under close monitoring as of 31 December 2017.

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 31 December 2017 and 2016.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2016			
	Commercial 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**

As of 31 December 2017 and 2016, 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.

Current Period - 31 December 2017 **Moody's Rating**	**Trading Financial Assets (**)**	**Available-for-Sale Financial Assets (*)**	**Held-to-Maturity Securities**	**Total**
Aaa	-	-	-	-
Aa1, Aa2, Aa3	-	192,304	-	**192,304**
A1, A2, A3	-	114,203	-	**114,203**
Baa1, Baa2, Baa3	-	671,056	-	**671,056**
Ba1	16,459	41,279,319	18,406,623	**59,702,401**
Ba2	-	196,879	476,409	**673,288**
Total	**16,459**	**42,453,761**	**18,883,032**	**61,353,252**

Prior 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**

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

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Exposure to credit risk:

	31 December 2017	31 December 2016
Credit risk exposures relating to on-balance sheet assets:	**330,617,755**	**287,265,724**
Due from banks and balances with the CBT	44,637,554	43,557,998
Loans and advances to customers	212,706,936	181,024,088
- Commercial loans	161,290,702	134,464,225
- Consumer loans and credit cards	45,604,241	41,576,624
- Financial lease receivables	5,811,993	4,983,239
Trading assets (*)	16,459	56,653
- Government debt securities	9,525	9,865
- Other marketable securities	6,934	46,788
Derivative financial instruments	8,316,049	7,620,938
Hedging derivative instruments	1,136,284	807,874
Available-for-sale securities (*)	42,453,761	34,527,472
- Government debt securities	36,816,619	29,240,863
- Other marketable securities	5,637,142	5,286,609
Held-to-maturity securities	18,883,032	17,976,870
- Government debt securities	16,143,379	15,461,905
- Other marketable securities	2,739,653	2,514,965
Other assets	2,467,680	1,693,831
Credit risk exposures relating to off-balance sheet items:	**87,877,837**	**74,182,065**
- Letter of guarantees	34,933,208	27,151,792
- Other guarantees and warranties	17,030,587	13,195,344
- Credit granting commitments	10,802,977	10,236,901
- Check payment commitments	6,679,928	6,200,426
- Credit card limit commitments	18,431,137	17,397,602
	418,495,592	**361,447,789**

(*) Excluding equity securities and mutual funds.

The above table represents the credit risk exposure of the Group at 31 December 2017 and 2016, 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 CBRT	**44,637,554**	**-**	**-**	**-**	**-**	**-**	**44,637,554**
Loans and advances to customers	**28,001,334**	**1,589,627**	**30,118,588**	**61,869,633**	**45,523,513**	**45,604,241**	**212,706,936**
- Commercial loans	27,954,054	1,589,627	30,015,316	61,442,572	40,289,133	-	161,290,702
- Consumer loans and credit cards	-	-	-	-	-	45,604,241	45,604,241
- Financial lease receivables	47,280	-	103,272	427,061	5,234,380	-	5,811,993
Trading assets (*)	**4,904**	**9,525**	**-**	**-**	**2,030**	**-**	**16,459**
- Government debt securities	-	9,525	-	-	-	-	9,525
- Other marketable securities	4,904	-	-	-	2,030	-	6,934
Trading derivative financial instruments	**4,482,862**	**-**	**-**	**-**	**3,777,547**	**55,640**	**8,316,049**
Hedging derivative instruments	**1,136,284**	**-**	**-**	**-**	**-**	**-**	**1,136,284**
Investment securities (*)	**7,688,188**	**53,227,539**	**-**	**140,628**	**280,438**	**-**	**61,336,793**
- Available-for-sale securities	4,948,535	37,084,160	-	140,628	280,438	-	42,453,761
Government debt securities	-	36,816,619	-	-	-	-	36,816,619
Other marketable securities	4,948,535	267,541	-	140,628	280,438	-	5,637,142
- Held-to-maturity	2,739,653	16,143,379	-	-	-	-	18,883,032
Government debt securities	-	16,143,379	-	-	-	-	16,143,379
Other marketable securities	2,739,653	-	-	-	-	-	2,739,653
Other assets	**2,467,680**	**-**	**-**	**-**	**-**	**-**	**2,467,680**
As at 31 December 2017	**88,418,806**	**54,826,691**	**30,118,588**	**62,010,261**	**49,583,528**	**45,659,881**	**330,617,755**

(*) Excluding equity securities

	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.

(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	**36,446,551**	**1,033,775**	**7,129,962**	**27,266**	**44,637,554**
Loans and advances To customers	**205,708,489**	**34,280**	**6,119,658**	**844,509**	**212,706,936**
- Commercial loans	154,292,255	34,280	6,119,658	844,509	161,290,702
- Consumer loans and credit cards	45,604,241	-	-	-	45,604,241
- Financial lease receivables	5,811,993	-	-	-	5,811,993
Trading assets (*)	**16,459**	-	-	-	**16,459**
- Government debt securities	9,525	-	-	-	9,525
- Other marketable securities	6,934	-	-	-	6,934
Trading derivative financial instruments	**3,822,067**	**77**	**4,475,740**	**18,165**	**8,316,049**
Hedging derivative Instruments	**-**	**-**	**1,136,284**	**-**	**1,136,284**
Investment securities (*)	**60,428,260**	**-**	**908,533**	**-**	**61,336,793**
- Available-for-sale securities	**41,545,228**	-	908,533	-	42,453,761
Government debt securities	36,816,619	-	-	-	36,816,619
Other marketable securities	4,728,609	-	908,533	-	5,637,142
- Held-to-maturity securities	18,883,032	-	-	-	18,883,032
Government debt securities	16,143,379	-	-	-	16,143,379
Other marketable securities	2,739,653	-	-	-	2,739,653
Other assets	**2,467,680**	**-**	**-**	**-**	**2,467,680**
As at 31 December 2017	**308,889,506**	**1,068,132**	**19,770,177**	**889,940**	**330,617,755**

(*) Excluding equity securities.

	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.

(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 2017, 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)	2,794,813
2	Equity risk (general and specific)	63,775
3	Foreign exchange risk	1,758,233
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	82,613
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**4,699,434**

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

The difference between the Group's foreign currency denominated and foreign currency indexed assets and liabilities is defined as the "Net Foreign Currency Position" and is the basis of currency risk. Foreign currency denominated assets and liabilities, together with purchase and sale commitments, give rise to foreign exchange exposure. The Bank keeps the foreign exchange exposure amount within the limits set by the ERC. The Board, taking into account the recommendations by the ERC, sets a limit for the size of a foreign exchange exposure, which is closely monitored by ALCO. Those limits are individually determined and followed for both the net overall foreign currency position and for the foreign exchange exposure. Derivative financial instruments like forward foreign exchange contracts and currency swaps are used as tools for foreign exchange exposure management.

The table below summarizes the Group's net foreign currency position, categorized by currency.

	31 December 2017					
	EUR	**USD**	**GBP**	**Other**	**TL**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	8,525,767	22,726,746	52,340	5,336,769	10,303,629	46,945,251
Trading and investment securities	6,392,477	25,270,362	-	602,237	29,491,557	61,756,633
Derivative financial instruments	558,497	2,439,814	908	85,431	6,367,683	9,452,333
Loans and advances to customers	42,758,379	41,048,634	11,770	67,937	128,820,216	212,706,936
Property, plant and equipment	856	7,039	-	-	3,418,021	3,425,916
Intangible assets	2,059	13	-	-	476,470	478,542
Deferred tax assets	302	9,075	-	-	695,522	704,899
Current tax	-	-	-	-	-	-
Other assets and pre-payments	815,983	1,397,969	66	281	1,955,651	4,169,950
Total assets	**59,054,320**	**92,899,652**	**65,084**	**6,092,655**	**181,528,749**	**339,640,460**
Deposits and obligations under repurchase agreements	44,909,486	84,394,537	2,020,256	2,179,799	96,801,726	230,305,804
Interbank money market deposits, funds borrowed and debt securities in issue	11,539,867	32,153,330	4,043	173,839	8,019,866	51,890,945
Derivative financial instruments	794,855	441,893	1,817	89,595	4,170,579	5,498,739
Income taxes payable	55,093	-	-	-	696,603	751,696
Other liabilities and accrued expenses	1,166,030	843,128	6,181	8,021	7,055,181	9,078,541
Employment benefit obligations	161	-	-	-	300,792	300,953
Deferred tax liability	90,672	-	-	-	392,164	482,836
Equity and non-controlling interest	-	-	-	-	41,330,946	41,330,946
Total liabilities and equity	**58,556,164**	**117,832,888**	**2,032,297**	**2,451,254**	**158,767,857**	**339,640,460**
Net balance sheet position	**498,156**	**(24,933,236)**	**(1,967,213)**	**3,641,401**	**22,760,892**	**-**
Off-balance sheet derivative instruments net notional position	**124,378**	**25,986,201**	**1,963,928**	**(3,655,622)**	**(23,297,308)**	**1,121,577**

At 31 December 2017, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 3.7400 =USD 1 and TL 4.4773 =EUR 1.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2016					
	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**
Deposits and obligations under repurchase agreements	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 =USD 1 and TL 3.6897 =EUR 1.

Currency Risk Sensitivity Analysis:

	Current Period - 31 December 2017		**Prior Period - 31 December 2016**	
Change in exchange rate	**Effect on Profit/Loss**	**Effect on Equity**	**Effect on Profit/Loss**	**Effect on Equity**
(+) 10%	91,810	(21,186)	98,241	(71,658)
(-) 10%	(91,810)	21,186	(98,241)	71,658

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk

"Interest Rate Risk" can be defined as the impact of interest rate changes on interest-sensitive asset and liability items of both on and off-balance sheets of the Group. The ERC sets limits for the interest rate sensitivity of on and off-balance sheet items and the sensitivity is closely monitored and reported weekly. In the case of high market fluctuations, daily transaction based reporting and analyses are made.

The Group manages the interest rate risk on a portfolio basis and tries to minimize the risk effect on the profitability, financial exposure and cash flows by applying different strategies. Basic methods such as using fixed or floating interest rates for different portfolios and maturities, setting the fixed margin in floating rates, or varying the rates for the short or long-term positions are applied actively.

The tables below summarize the Group's exposure to interest rate risks at 31 December 2017 and 31 December 2016. Included in the tables are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

	31 December 2017					
	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	26,731,759	8,190	-	-	20,205,302	46,945,251
Trading and investment securities	13,341,922	14,387,245	25,179,869	8,444,216	403,381	61,756,633
Derivative financial instruments	3,288,123	994,029	3,631,436	1,324,932	213,813	9,452,333
Loans and advances to customers	77,251,780	53,859,953	70,980,593	9,881,247	733,363	212,706,936
Property, plant and equipment	-	-	-	-	3,425,916	3,425,916
Intangible assets	-	-	-	-	478,542	478,542
Deferred income tax assets	-	-	-	-	704,899	704,899
Current tax	-	-	-	-	-	-
Other assets and pre-payments	594,365	222,495	1,023,931	643,005	1,686,154	4,169,950
Total assets	**121,207,949**	**69,471,912**	**100,815,829**	**20,293,400**	**27,851,370**	**339,640,460**
Deposits and obligations under repurchase agreements	168,415,917	19,360,469	6,693,448	596,050	35,239,920	230,305,804
Interbank money market deposits, funds borrowed and debt securities in issue	32,075,729	8,490,169	6,189,433	5,135,614	-	51,890,945
Derivative financial instruments	1,534,945	1,017,667	2,071,000	875,127	-	5,498,739
Income taxes payable	-	-	-	-	751,696	751,696
Other liabilities and accrued expenses	1,373,620	537,813	255,217	728	6,911,163	9,078,541
Employment benefit obligations	-	-	-	-	300,953	300,953
Deferred tax liability	-	-	-	-	482,836	482,836
Total liabilities	**203,400,211**	**29,406,118**	**15,209,098**	**6,607,519**	**43,686,568**	**298,309,514**
Net repricing period gap	**(82,192,262)**	**40,065,794**	**85,606,731**	**13,685,881**	**(15,835,198)**	**41,330,946**
Off-balance sheet derivative instruments net notional position	**28,019,442**	**193,808**	**(19,495,499)**	**(5,994,678)**	**-**	**2,723,073**

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 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**
Deposits and obligations under repurchase agreements	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	**26,563,269**	**3,978,071**	**(19,059,608)**	**(7,766,384)**	**-**	**3,715,348**

The tables below summarize effective average interest rates by major currencies for monetary financial instruments at 31 December 2017 and 2016:

	31 December 2017			31 December 2016		
Assets	**USD (%)**	**EUR (%)**	**TL (%)**	**USD (%)**	**EUR (%)**	**TL (%)**
Cash and due from banks:						
- Time deposits in foreign banks	1.40	-	-	6.03	-	9.48
- Time deposits in domestic banks	1.92	0.85	15.49	0.92	1.54	10.57
- Interbank money market placements	-	-	14.21	-	-	9.84
- Reserve requirements with the Central Bank of Turkey	1.50	-	7.83	0.75	-	5.31
Trading securities	-	-	16.16	-	-	12.27
Loans and advances to customers	5.93	3.73	14.55	5.07	3.66	13.04
Investment securities:						
- Available-for-sale	4.20	2.47	12.48	3.71	2.38	9.52
- Held-to-maturity	4.11	3.62	13.22	4.05	3.62	9.82
Liabilities						
Deposits and obligations under repurchase agreements	2.59	0.97	10.61	2.35	1.10	8.78
Interbank and money market deposits	-	1.92	14.06	-	1.93	8.88
Funds borrowed	3.00	1.20	8.54	2.24	0.97	9.17
Debt securities in issue	4.52	1.63	12.79	3.84	1.68	9.40

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.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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.

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 2017 and 31 December 2016, 500 bp shock, 400 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.

	31.12.2017			31.12.2016	
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)	4,767,280	10.68%	3,522,632	10.12%
TL	500	(4,987,185)	(11.19)%	(3,732,576)	(10.71%)
USD	(200)	(193,390)	(0.43)%	(534,093)	(1.53%)
USD	200	203,408	0.46%	509,074	1.47%
EUR	(200)	(272,548)	(0.61)%	57,075	0.15%
EUR	200	(157,953)	(0.35)%	(270,409)	(0.78%)
Total (for negative shocks)		**4,301,342**	**9.64%**	**3,045,614**	**8.74%**
Total (for positive shocks)		**(4,941,730)**	**(11.08)%**	**(3,493,911)**	**(10.02%)**

(f) Liquidity risk

The liquidity risk of the Bank is the risk of being unable to fulfill its payment obligations on time due to not having enough cash sources or cash inflows to finance its cash outflows fully and on time due to cash flow instabilities. Liquidity risk arises from situations in which the Bank is unable to meet the cash outflows with its cash sources and borrowing opportunities over collateralizing marketable securities, in case of sudden fund withdrawals by the individual/institutional funders of the Bank.

The Bank's liquidity and funding policy is to own sufficient liquidity reserve and funding opportunities to meet Bank's liabilities even in cases of stress, resulting from the market conditions or other conditions specific to the Bank.

The Bank has capacity to meet a high risk with broad and stable deposit, strong base capital structure and diversified foreign borrowing sources and is capable of providing additional liquidity with high quality liquid securities in its portfolio and available limits at both the Central Bank of Republic of Turkey and other Money markets.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Management of liquidity risk is shared by the ERC, ALCO, Treasury Department and Risk Management Department. The ERC determines the liquidity management policies and the appropriate liquidity risk level in line with the Bank's risk appetite and monitors whether the liquidity risk is managed under the framework of determined policies and within the defined limits.

The different categories of defined limits are;

- Limits related to wholesale funding sources,
- Limits related to liquid asset buffer,
- Limits related to loan/deposit ratio,
- Limits related to the cash inflows coverage capacity to cash outflows,
- Limits related to cash outflow coverage capacity in the stress environment

ALCO takes decision to use alternative funding sources, pricing of obtained funds and granted loans, and other decisions of Daily liquidity management. Treasury Department ensures that the Bank meets its short, middle and long term liabilities, with the transactions made in accordance with ALCO decisions order to utilize excess funding or close the funding gap, occurring on foreign currencies or maturity terms. Risk Management Department measures and monitors the liquidity risk, with the reports prepared and analyses made, and informs the top management. Liquidity risk reporting consists of periodic and special purpose reports prepared to be discussed in the ERC and ALCO meetings, stress tests, scenario analyses, risk limit compliance reports and legal liquidity reports.

	Current Period – 31 December 2017		**Prior Period – 31 December 2016**	
	TL+FC	**FC**	**TL+FC**	**FC**
October	135.57	249.01	122.85	149.72
November	127.11	233.99	120.89	220.90
December	142.25	263.84	143.62	190.56

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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.

	31 December 2017						
	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	19,180,134	27,756,927	8,190	-	-	-	46,945,251
Trading and investment securities	399,458	4,036,255	4,486,350	38,441,073	14,389,574	3,923	61,756,633
Derivative financial instruments	213,813	829,393	822,538	4,950,206	2,636,383	-	9,452,333
Loans and advances to customers	582,626	52,169,105	45,436,588	90,105,137	24,262,743	150,737	212,706,936
Property, plant and equipment	-	-	-	-	-	3,425,916	3,425,916
Intangible assets	-	-	-	-	-	478,542	478,542
Deferred income tax assets	-	-	-	704,899	-	-	704,899
Current Tax	-	-	-	-	-	-	-
Other assets and pre-payments	707,825	746,917	222,495	995,481	643,005	854,227	4,169,950
Total assets	**21,083,856**	**85,538,597**	**50,976,161**	**135,196,796**	**41,931,705**	**4,913,345**	**339,640,460**
Deposits and obligations under repurchase agreements	36,910,215	151,820,858	17,909,821	21,553,802	2,111,108	-	230,305,804
Interbank money market deposits, funds borrowed and debt securities in issue	-	13,809,364	13,715,856	15,224,317	9,141,408	-	51,890,945
Derivative financial instruments	-	1,290,974	852,774	2,066,666	1,288,325	-	5,498,739
Income taxes payable	-	-	751,696	-	-	-	751,696
Other liabilities and accrued expenses	610,069	6,358,782	698,565	1,093,329	317,796	-	9,078,541
Employment benefit obligations	-	-	-	300,953	-	-	300,953
Deferred tax liability	-	-	-	482,836	-	-	482,836
Total liabilities	**37,520,284**	**173,279,978**	**33,928,712**	**40,721,903**	**12,858,637**	**-**	**298,309,514**
Net gap as at 31 December 2017	**(16,436,428)**	**(87,741,381)**	**17,047,449**	**94,474,893**	**29,073,068**	**4,913,345**	**41,330,946**

	31 December 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**
Deposits and obligations under repurchase agreements	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)

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:

	31 December 2017					
Liabilities	**Up to 1 month and demand**	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Deposits and obligations under repurchase agreements	162,168,054	27,359,136	18,683,908	22,468,014	2,328,876	233,007,988
Funds borrowed and debt securities in issue	1,851,982	11,685,351	14,307,046	18,181,632	7,946,753	53,972,764
Interbank money market deposits	470,052	38,571	-	-	-	508,623
Total	**164,490,088**	**39,083,058**	**32,990,954**	**40,649,646**	**10,275,629**	**287,489,375**
Letter of guarantees (*)	**3,439,487**	**5,149,695**	**17,863,873**	**5,714,862**	**19,795,878**	**51,963,795**

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

	31 December 2016					
Liabilities	**Up to 1 month and demand**	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Deposits and obligations under repurchase agreements	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.

(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:

	31 December 2017					
Derivatives held for trading	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5y ears**	**5 years and over**	**Total**
Foreign exchange derivatives:	3,510,245	(142,848)	366,380	1,000,203	420,348	5,154,328
– Inflow	39,564,334	21,206,694	38,321,347	40,064,677	6,347,523	145,504,575
– Outflow	(36,054,089)	(21,349,542)	(37,954,967)	(39,064,474)	(5,927,175)	(140,350,247)
Interest rate derivatives:	(1,650)	(1,994)	(14,984)	67,589	61,635	110,596
– Inflow	20,561	128,574	516,796	1,842,438	874,125	3,382,494
– Outflow	(22,211)	(130,568)	(531,780)	(1,774,849)	(812,490)	(3,271,898)
Derivatives held for hedging:						
Foreign exchange derivatives:	(15,710)	(31,413)	(131,126)	653,782	-	475,533
– Inflow	4,611	11,232	52,952	3,623,928	-	3,692,723
– Outflow	(20,321)	(42,645)	(184,078)	(2,970,146)	-	(3,217,190)
Interest rate derivatives:	(1,565)	(12,073)	4,015	89,625	(1,742)	78,260
– Inflow	11,138	43,687	155,674	745,960	165,899	1,122,358
– Outflow	(12,703)	(55,760)	(151,659)	(656,335)	(167,641)	(1,044,098)
Total inflow	**39,600,644**	**21,390,187**	**39,046,769**	**46,277,003**	**7,387,547**	**153,702,150**
(Total outflow)	**(36,109,324)**	**(21,578,515)**	**(38,822,484)**	**(44,465,804)**	**(6,907,306)**	**(147,883,433)**

	31 December 2016					
Derivatives held for trading	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5y ears**	**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)**

(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 2014, 2015, and 2016.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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.

	31.12.2014	31.12.2015	31.12.2016	Total/Positive GI year number	Ratio (%)	Total
Gross income	8,997,640	10,207,953	11,946,814	3	15	1,557,620
Amount subject to Operational Risk (Amount*12,5)						19,470,254

(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 2017 and 2016:

	31 December 2017		31 December 2016	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
Loans and advances to customers	212,706,936	209,807,463	181,024,088	183,424,570
Held-to-maturity investments (Net)	18,883,032	19,082,300	17,976,870	17,932,174
Financial liabilities				
Customer deposits	230,305,804	229,539,315	200,010,473	199,243,912
Interbank money market deposits, funds borrowed and debt securities in issue	51,890,945	51,846,282	46,117,960	45,282,195

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.

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

(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 sets a hierarchy of valuation techniques according to the observability of data used in valuation techniques which establish basis for fair value calculations.

Aforesaid fair value hierarchy is determined as follows.

a) Quoted market prices (non-adjusted) (1st level).
b) Directly (by way of prices) or indirectly (derived from prices) data for the assets or liabilities, other than quoted prices in the 1st level (2nd level).
c) Data not based on observable data regarding assets or liabilities (3rd level).

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)

	31 December 2017			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities	**32,956**	**6,934**	**-**	**39,890**
- Government bonds	9,525	-	-	9,525
- Eurobonds	-	-	-	-
- Government bonds denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	23,431	-	-	23,431
- Other bonds	-	6,934	-	6,934
Trading Derivative Financial Instrument	**2,328**	**8,313,721**	**-**	**8,316,049**
Hedging Derivative Financial Instrument	**-**	**1,136,284**	**-**	**1,136,284**
Securities Available-for-sale	**42,593,721**	**222,892**	**-**	**42,816,613**
- Government bonds	23,158,099	-	-	23,158,099
- Eurobonds	13,657,443	-	-	13,657,443
- Treasury bills	1,077	-	-	1,077
- Government bonds denominated in foreign currency	-	-	-	-
- Mutual funds	277,987	-	-	277,987
- Equity securities	-	84,865	-	84,865
- Other Bonds	5,499,115	138,027	-	5,637,142
Assets for which fair values are disclosed (*)	**19,082,300**	**209,807,463**	**-**	**228,889,763**
- Loans and advances to customers	-	209,807,463	-	209,807,463
- Held-to-Maturity Investments	19,082,300	-	-	19,082,300
Government debt securities	15,592,016	-	-	15,592,016
Other marketable securities	3,490,284	-	-	3,490,284
Total assets	**61,711,305**	**219,487,294**	**-**	**281,198,599**
Liabilities carried at fair value:				
Trading derivative financial instruments	**186**	**5,423,642**	**-**	**5,423,828**
Hedging derivative financial instruments	**-**	**74,911**	**-**	**74,911**
Liabilities for which fair values are disclosed (*)	**-**	**281,385,597**	**-**	**281,385,597**
- Customer Deposits	-	229,539,315	-	229,539,315
- Interbank money market deposits, funds borrowed and debt securities in issue	-	51,846,282	-	51,846,282
Total liabilities	**186**	**286,884,150**	**-**	**286,884,336**

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

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 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).

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 2017, Group's total capital has been calculated as TL 44,617,132 (31 December 2016: 34,871,848), the capital adequacy ratio is 15.79% (31 December 2016: 14.16%). This ratio is well above the minimum ratio required by the legislation.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2017	31 December 2016
Tier I capital	40,066,782	32,078,209
Tier II capital	4,556,871	2,804,483
Deductions	(6,521)	(10,844)
Total regulatory capital	44,617,132	34,871,848
Risk-weighted assets (including market and operational risk)	282,611,034	246,205,794
Capital adequacy ratio	**15.79%**	**14.16%**

(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 2017, the Group has custody accounts amounting to TL 59,926,436 in nominal value (31 December 2016: TL 48,092,532).

NOTE 6 - SEGMENT REPORTING

The Group operates in business segments including consumer banking, commercial banking, SME banking, corporate-investment banking, 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.

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

NOTE 6 - SEGMENT REPORTING (Continued)

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. and Ak Portföy Yönetim A.Ş. which are consolidated as subsidiary of Bank.

Information on business segments as of 31 December 2017 and 31 December 2016 presented in the following tables. Explanations on business segments are prepared on the basis of data obtained from Bank Management Reporting System:

Segment information at 31 December 2017 and 2016 is as follows:

		31 December 2017			
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	53,398,842	174,399,522	91,152,722	7,207,062	326,158,148
Equity securities					101,963
Unallocated assets					13,380,349
Total assets					**339,640,460**
Segment liabilities	97,595,727	95,608,073	88,879,678	6,330,535	288,414,013
Unallocated liabilities					9,895,501
Equity					41,330,946
Total liabilities and equity					**339,640,460**
Segment information regarding the income statement:					
Segment revenue	4,347,271	6,796,179	1,032,415	892,077	13,067,942
Segment result	2,083,222	4,861,910	838,666	(132,221)	7,651,577
Dividend income				2,658	2,658
Income taxes				(1,582,128)	(1,582,128)
Profit for the year	**2,083,222**	**4,861,910**	**838,666**	**(1,711,691)**	**6,072,107**
Other segment items					
Capital expenditure	-	-	-	483,622	483,622
Depreciation and amortization	(21,292)	(17,510)	(123)	(236,854)	(275,779)
Other non-cash expenses	(284,492)	(113,897)	(54,123)	(1,500,356)	(1,952,868)

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

NOTE 6 - SEGMENT REPORTING (Continued)

		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	-	-	-	445,363	445,363
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)

(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:

	31 December 2017	31 December 2016
Cash funds:		
Cash on hand (*)	2,266,149	1,699,814
Cash in transit	41,536	140,680
Purchased cheques	12	8
	2,307,697	**1,840,502**
Current accounts and demand deposits:		
Central Bank of Turkey	9,284,197	11,415,171
Foreign banks	7,586,728	6,469,517
Domestic banks	1,512	3,093
	16,872,437	**17,887,781**
Time deposits:		
Central Bank of Turkey	23,771,282	21,756,612
Foreign banks	604,275	1,192,942
Domestic banks	1,837,214	2,720,626
	26,212,771	**25,670,180**
Interbank money market placements	**1,552,346**	**37**
Total cash and due from banks and the balances with the Central Bank of Turkey	**46,945,251**	**45,398,500**

(*) Includes precious metal accounts amounting to TL 102,465 (31 December 2016: 4,947).

At 31 December 2017, 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 4,541,840 (31 December 2016: TL 5,356,843) (Note 26).

Cash and cash equivalents included in the statements of cash flows for the year ended 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Cash and due from banks excluding accrued interest and blocked accounts (*)	12,690,965	12,780,711
Trading and investment securities with original maturities of less than three months excluding accrued interest	6,501	46,740
Total	**12,697,466**	**12,827,451**

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

(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)

The balances with the Central Bank of Turkey ("the Central Bank").

	31 December 2017	31 December 2016
The balances with the Central Bank of Turkey:		
- TL	7,033,859	4,228,312
- Foreign currency	26,021,620	28,943,471
Total	**33,055,479**	**33,171,783**

The reserve requirements are promulgated by communiqués issued by the Central Bank and TL 3,952,120 in Turish Lira and TL 26,021,620 in foreing currency promulgated as of 31 December 2016 (31 December 2017: TL 4,228,312 Turkish Lira and TL 23,769,875 in foreign currency).

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 2017 (31 December 2016: 4% and 10.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 24% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2017 (31 December 2016: 4.5% and 24.5% for all foreign currency liabilities).

NOTE 8 - TRADING SECURITIES

The breakdown of trading securities is as follows:

	31 December 2017	31 December 2016
Government bonds	9,525	9,865
Eurobonds	-	-
Government bonds denominated in foreign currency	-	-
Treasury bills	-	-
Share certificates	23,431	7,268
Other	6,934	46,788
Total	**39,890**	**63,921**

As of 31 December 2017, security pledged under repurchase agreements with financial institutions is TL 200 (31 December 2016: TL 569).

Trading securities amounting to TL 9,731 (31 December 2016: TL 9,721) 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 2017 and 31 December 2016 are set out in the following table.

	31 December 2017		**31 December 2016**	
	Fair values		**Fair values**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives held for trading:				
Currency and interest rate swap purchases and sales	7,700,398	(4,727,205)	6,886,370	(3,900,878)
Options purchases and sales	202,524	(242,213)	262,589	(289,772)
Currency and interest rate futures purchases and sales	-	-	-	-
Forward currency purchases and sales	413,127	(454,410)	471,979	(409,197)
Other purchases and sales	-	-	-	-
Derivatives held for hedging:	-	-	-	-
Currency and interest rate swap purchases and sales	1,136,284	(74,911)	807,874	(98,991)
Total derivative assets/(liabilities)	**9,452,333**	**(5,498,739)**	**8,428,812**	**(4,698,838)**

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

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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.

As at 31 December 2017, 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 2017			Prior Period 31 December 2016		
	Notional Amount	**Assets**	**Liabilities**	**Notional Amount**	**Assets**	**Liabilities**
Interest Rate and Cross Currency Swaps						
-TL	2,497,225	973,630	-	2,497,225	682,966	-
-FC	27,012,330	162,654	74,911	20,894,823	124,908	98,991
Total	**29,509,555**	**1,136,284**	**74,911**	**23,392,048**	**807,874**	**98,991**

1. Explanations on Net Investment Hedge:

The Group has been using net investment hedging strategy to hedge foreign currency risk 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 2017

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	(70,981)	63,778	(7,203)
Interest Rate Swap	Fixed interest rate Lease Receivables	Interest rate risk	273	(281)	(8)
Cross-currency swap	Fixed interest rate FC Issued Eurobond, FC Lease Receivables	Interest rate and currency risk	661	(663)	(2)
Cross-currency swap	Fixed interest rate TL Mortgage Loans Portfolio, FC borrowings	Interest rate and currency risk	1,115,949	(1,104,587)	11,362

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Prior 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 "Gain / (Loss) on Derivative Financial Transactions" and "Gain/ (Loss) on Foreign Exchange Transactions" since the beginning of hedge accounting.

As at 31 December 2017 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 2017, 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 15,256 (31 December 2016: TL 12,845).

3. Explanation on Cash Flow Hedge

Current Period - 31 December 2017

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	131,448	-	12,793	(22,824)	215

Prior 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)	-

As of 31 December 2017 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 2017, 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 (19,006) (31 December 2016: TL (43,790)).

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

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

	31 December 2017	31 December 2016
Consumer loans	**32,125,184**	**29,431,667**
- Mortgage	13,232,484	13,569,841
- General purpose	18,638,022	15,483,543
- Automobile	254,678	378,283
- Other	-	-
Credit cards	**14,048,926**	**12,819,216**
- Retail	11,455,619	10,660,590
- Corporate	2,593,307	2,158,626
Corporate, commercial and small business loans	**168,886,462**	**141,430,811**
- Export financing loans	10,052,790	7,016,252
- Loans to financial institutions	11,269,060	7,133,246
- Leasing receivables	5,734,802	4,943,431
- Project finance loans	35,328,282	26,431,817
- Commercial installment loans	19,293,052	8,535,009
- Other	87,208,476	87,371,056
Performing loans	**215,060,572**	**183,681,694**
Impaired loans	4,819,781	4,420,613
Total loans and advances to customers	**219,880,353**	**188,102,307**
Provision for impairment	(7,173,417)	(7,078,219)
Net loans and advances to customers	**212,706,936**	**181,024,088**

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

	31 December 2017	31 December 2016
Gross investment in finance leases	6,898,217	5,951,223
Less: Unearned finance income	(876,345)	854,370
Total investment in finance leases	6,021,872	5,096,853
Provision for impairment	(209,879)	(113,614)
Net investment in finance leases	**5,811,993**	**4,983,239**

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

	31 December 2017		31 December 2016	
	Gross investment in finance leases	Total investment in finance leases	Gross investment in finance leases	Total investment in finance leases
Period ending				
2017	-	-	1,990,387	1,728,439
2018	2,619,756	2,316,629	1,242,683	1,018,701
2019	1,477,983	1,237,783	932,451	780,873
2020(*)	2,800,478	2,467,460	1,785,702	1,568,840
Total	**6,898,217**	**6,021,872**	**5,951,223**	**5,096,853**

(*) Balances include the year 2020 and thereafter.

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

The Group has provided an individual impairment for impaired loans amounting to TL 4,148,868 (31 December 2016: TL 3,911,436). As of 31 December 2017 total amount of provision for impairment provided by the Group, which amounts to TL 7,173,417 (31 December 2016: 7,078,219) represents the total amount of individual and collective provision on loans and advances.

Movements in the provision for loan losses are as follows:

	31 December 2017			
	Commercial loans	**Consumer Loans and credit cards**	**Leasing receivables**	**Total**
1 January 2017	**3,662,281**	**3,302,324**	**113,614**	**7,078,219**
Additions	914,072	733,951	128,260	1,776,283
Collections	(337,650)	(584,286)	(10,970)	(932,906)
Write-offs(*)	(186,185)	(540,969)	(21,025)	(748,179)
31 December 2017	**4,052,518**	**2,911,020**	**209,879**	**7,173,417**

(*) 709 million (in full TL amount) of the Bank's non-performing loan portfolio has been sold to 4 companies İstanbul Varlık Yönetim A.Ş., Efes Varlık Yönetim A.Ş., Hayat Varlık Yönetimi A.Ş. ve Final Varlık Yönetimi A.Ş. at a price of TL 39 million (in full TL amount).

	31 December 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**

(*) TL 450,1 million (in full TL amount) of the Bank's non-performing loan portfolio has been sold to Girişim Varlık Yönetimi A.Ş. at a price of TL 49,1 million (in full TL amount). Specific provision previously allocated for this amount, is shown under "Write-off" in the above table

Loans and advances to related parties are as follows:

	31 December 2017	**31 December 2016**
Loans and advances to related parties	5,605,978	4,591,797
Less: Cash collateral obtained	-	-
Net loans and advances to related parties	**5,605,978**	**4,591,797**

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

	31 December 2017	**31 December 2016**
Private sector	218,272,385	186,118,501
Public sector	1,607,968	1,983,806
Total loans and advances to customers	**219,880,353**	**188,102,307**

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

NOTE 11 - INVESTMENT SECURITIES

(a) Securities available-for-sale:

	31 December 2017	31 December 2016
Debt securities		
- Government bonds	23,158,099	17,912,731
- Eurobonds	13,657,443	11,328,132
- Treasury bills	1,077	-
- Government bonds denominated in foreign currency	-	-
- Other bonds	5,637,142	5,286,609
Equity securities		
- Listed	-	-
- Unlisted	101,963	71,264
- Mutual Funds	277,987	212,244
Total securities available-for-sale	**42,833,711**	**34,810,980**

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

	31 December 2017	31 December 2016
Debt securities		
- Government bonds	13,596,948	13,091,240
- Other government debt securities	2,546,431	2,370,665
- Other Marketable Securities	2,739,653	2,514,965
Total securities held-to-maturity	**18,883,032**	**17,976,870**

As at 31 December 2017, investment securities subject to repurchase agreements amount to TL 30,143,917 (31 December 2016: TL 27,019,037); and those given as collateral/blocked amount to TL 5,009,380 (31 December 2016: TL 4,298,063).

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:

	31 December 2017	31 December 2016
Balance at 1 January	**17,976,870**	**10,688,439**
Additions (*)	226	5,882,218
Redemptions	(766,185)	(130,259)
Exchange differences	1,223,819	1,269,337
Impairment Provision (-)	(75,298)	(100,753)
Change in Amortized Cost	523,600	367,888
Balance at 31 December	**18,883,032**	**17,976,870**

(*)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

The Bank has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with "IAS 16 Plant and Equipment" on 31 January '2017. The revaluation difference amounting to TL 2,465,549 is shown under "Investment Properties Revaluation" in the below table.

	Land and Buildings	Equipment and vehicles	Constructions in progress	Leasehold improvements	Total
At 31 December 2016					
Cost	725,252	1,152,108	2,383	122,117	2,001,860
Accumulated depreciation	(242,750)	(782,893)	-	(94,856)	(1,120,499)
Net book amount	**482,502**	**369,215**	**2,383**	**27,261**	**881,361**
Opening net book amount	482,502	369,215	2,383	27,261	881,361
Additions	1,296	186,295	52,980	4,210	244,781
Investment Properties					
Revaluation differences	2,465,549	-	-	-	2,465,549
Disposals	(7,637)	(493)	-	(2,219)	(10,349)
Depreciation charge (Note 25)	(18,911)	(124,122)	-	(10,920)	(153,953)
Impairment	(1,473)	-	-	-	(1,473)
Transferred	9,262	-	(9,262)	-	-
Closing net book amount	**2,930,588**	**430,895**	**46,101**	**18,332**	**3,425,916**
At 31 December 2017					
Cost	2,954,805	1,301,915	46,101	111,606	4,414,427
Accumulated depreciation	(24,217)	(871,020)	-	(93,274)	(988,511)
Net book amount	**2,930,588**	**430,895**	**46,101**	**18,332**	**3,425,916**

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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 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**

NOTE 13 - INTANGIBLE ASSETS

	31 December 2017	31 December 2016
Cost	1,040,085	800,726
Accumulated depreciation	(561,543)	(439,199)
Net book amount	**478,542**	**361,527**
Opening balance at 1 January	361,527	224,105
Disposals (-)	-	-
Additions	238,841	224,038
Charge for the year (net)	(121,826)	(86,616)
Net book amount	**478,542**	**361,527**

NOTE 14 - OTHER ASSETS AND PRE-PAYMENTS

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

	31 December 2017	31 December 2016
Derivative collaterals	2,104,468	1,159,323
Miscellaneous receivables	734,489	202,991
Pre-payments	668,161	371,531
Receivables from cheques in clearance	149,830	418,721
Receivables from credit card payments	60,189	16,418
Fund management fee accruals	36,486	5,911
Other	416,327	475,791
Total	**4,169,950**	**2,650,686**

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

NOTE 15 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	31 December 2017			31 December 2016		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Saving deposits	17,851,983	89,346,331	107,198,314	14,430,486	76,583,302	91,013,788
Commercial deposits	17,324,591	59,449,771	76,774,362	14,439,994	55,450,574	69,890,568
Funds deposited under repurchase agreements	-	28,850,276	28,850,276	-	26,042,669	26,042,669
Bank deposits	1,187,569	12,741,468	13,929,037	972,501	6,229,124	7,201,625
Other	546,072	3,007,743	3,553,815	566,747	5,295,076	5,861,823
Total	**36,910,215**	**193,395,589**	**230,305,804**	**30,409,728**	**169,600,745**	**200,010,473**

At 31 December 2017, deposits of TL 11,148,292 (31 December 2016: TL 9,736,546) were from Sabancı Holding Group companies and other related parties. The total interest expense paid to related party deposits is TL 897,719 (31 December 2016: TL 768,969) for the year ended 31 December 2017.

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

	31 December 2017	**31 December 2016**
Interbank money market deposits	**507,522**	**1,277,373**
Domestic banks		
- TL	325,546	294,726
- Foreign currency	688,817	472,133
Foreign institutions	21,236,702	19,121,117
Funds borrowed	**22,251,065**	**19,887,976**

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 2017, Akbank has four outstanding syndicated loan facilities.

First outstanding facility with 1 and 3 year tenor tranches signed on 18 August 2016 raised EUR 787.8 million and USD 327 million. Outstanding balance is EUR 90 million with Euribor + 215 bps for 3 year tenor.

Second outstanding facility with 1 and 2 year tenor tranches was signed on 22 March 2017 and raised a total of EUR 738.3 million and USD 404.5 million with Euribor+135 bps and Libor+145 bps for 1 year, and Libor + 220 bps for 2 year tenor.

Third outstanding facility with a 3-year tenor signed on 9 July 2015 raised USD 335 million with Libor+185 bps.

Fourth outstanding facility with 1 and 2 year tenor tranches was signed on 15 August 2017 and raised a total of EUR 515.1 million and USD 542.6 million with Euribor+125 bps and Libor+135 bps for 1 year, and Libor + 220 bps for 2 year tenor.

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

Debt securities in issue

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

The balances amounting to USD (000) 5,539,969 and EUR (000) 246,106 consist of securitization deals and other currencies TL (000) 173,701 consist of RON, JPY and HUF denominated securities issued by the Group. The repayment schedule of the total USD, EUR, RON, JPY and HUF denominated notes in issue is as follows:

	31 December 2017				
	USD (000)	TL	EUR (000)	TL	Other TL
2017 (*)	-	-	-	-	-
2018	1,208,548	4,519,968	75,260	336,963	77,726
2019	452,230	1,691,340	93,331	417,871	95,974
2020	848,888	3,174,841	45,817	205,136	-
2021	516,436	1,931,471	23,075	103,314	-
2022	773,845	2,894,180	334	1,495	-
2023	464,207	1,736,134	321	1,437	-
2024	482,772	1,805,567	309	1,383	-
2025	426,707	1,595,884	297	1,330	-
2026	63,293	236,716	285	1,276	-
2027	293,150	1,096,381	274	1,227	-
2028	9,893	37,000	263	1,178	-
2029	-	-	6,543	29,295	-
Total	**5,539,969**	**20,719,482**	**246,109**	**1,101,905**	**173,700**

	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**

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

As of 31 December 2017 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 3,533,530 with the maturity of 3-6 months are TL 1,122,952 and with the maturity of over 5 years are TL 2,480,799.

As of 31 December 2016, the outstanding TL denominated bonds with the maturity of 1-3 months are TL 987,990, with the maturity of 3-6 months are TL 347,344, with the maturity of 1-5 years are TL 223,708, and with the maturity of over 5 years are TL 997,225.

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

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

Net Debt Reconciliation

	Funds Borrowed	Debt Securities in Issue	Interbank Money Market Deposits	Total
Opening Balance (As of 31 December 2016)	**19,887,976**	**24,949,611**	**1,277,373**	**46,114,960**
Additional Liabilities	2,382,459	6,428,434	-	8,810,893
Principal Payments	(44,884)	(2,270,854)	(771,779)	(3,087,517)
Interest Accrual Changes	25,514	25,167	1,928	52,609
Closing Balance (As of 31 December 2017)	**22,251,065**	**29,132,358**	**507,522**	**51,890,945**

NOTE 17 - TAXATION

	31 December 2017	31 December 2016
Current income tax expense	(1,654,953)	1,069,329
Deferred tax expense/(income)	72,825	200,463
Income tax expense	**(1,582,128)**	**1,269,792**
Income taxes currently payable	1,604,765	1,011,344
Prepaid taxes	(853,069)	(722,185)
Income taxes payable	**751,696**	**289,159**

(a) Income taxes currently payable

In Turkey, corporate tax rate is 20%. This ratio will be applied as 22% for a period of three years, according to Law No: 7061 “The Law regarding amendments on Certain Tax Laws and their implications on Deferred Tax Calculations” published in the Official Gazette dated 5 December 2017. The Corporate Tax rate is applied to tax base which is calculated by adding certain non deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and exclusion of deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

Dividends paid to non-resident corporations, which have a place of business in Turkey or are resident corporations, are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporate tax quarterly on their corporate income with current rate. Advance tax is declared by the 14th day and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial 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. On sales after December 5 of 2017, this rate is applied as 50% for immovable properties.

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

NOTE 17 - TAXATION (Continued)

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until the 25th day of the following fourth month after the closing of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year following the date of filing during this time period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Current tax, related to items recognized directly in equity is also credited or charged directly to equity:

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%.

The movement of current income taxes at 31 December 2017 and 2016 is as follows;

	31 December 2017	**31 December 2016**
Balance at 1 January	**289,159**	**379,083**
Current taxes charged to income statement	1,654,953	1,069,329
Current taxes charged to equity	(50,188)	(57,985)
Less: Taxes paid	(1,142,228)	(1,101,268)
Total	**751,696**	**289,159**

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

NOTE 17 - TAXATION (Continued)

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

	31 December 2017	**31 December 2016**
Profit before income taxes and minority interest	7,654,235	6,200,882
Theoretical tax charge at the applicable tax rate 20%	1,530,847	1,240,176
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income exempt from taxation	(129,603)	(67,752)
Non-deductible expenses	180,884	97,368
	1,582,128	**1,269,792**

(b) Deferred income taxes

The Group calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12") and the related decrees of the BRSA concerning income taxes. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. The Law regarding amendments on Certain Tax Laws was approved in The Grand National Assembly of Turkey on 28 November 2017 and the Law was published in the Official Gazette on 5 December 2017. Accordingly, the corporate income tax rate will be increased from 20% to 22% for the years 2018, 2019 and 2020. According to the Law that have been enacted, deferred tax asset and liabilities shall be measured at the tax rate 22% that are expected to apply to these periods when the assets is realised or the liability is settled. For the periods 2021 and after deferred tax assets and liabilities will be measured by 20% tax rate.

Deferred tax assets and liabilities are presented on a net basis by considering the domestic and foreign branches' financial statements separately.

Deferred tax, related to items recognized directly in equity is also credited or charged directly to equity and 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.

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

NOTE 17 - TAXATION (Continued)

The movement of deferred income taxes at 31 December 2017 and 2016 as follows;

	31 December 2017	31 December 2016
Deferred tax asset, net at 1 January	**411,603**	**643,339**
Deferred income tax recognized in income statement	72,825	(200,463)
Deferred income tax recognized in equity	(262,365)	(31,273)
Deferred tax asset/(liability), net at 31 December	**222,063**	**411,603**

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)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Temporary differences on financial instruments	1,407,595	1,940,777	285,788	373,205
Employment benefit obligations	300,953	228,082	68,041	45,483
Other temporary differences	435,844	316,689	87,943	63,336
Free provision for general possible risk	700,000	200,000	140,000	40,000
Reversal of country risk provision	(233,796)	(191,197)	(74,815)	(61,183)
Differences between book value and tax base of property, plant and equipment	(584,033)	(246,191)	(122,011)	(49,238)
Property Valuation Differences	(2,465,549)	-	(162,883)	
Net deferred income tax liabilities			**482,836**	**(227,719)**

NOTE 18 - OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December 2017, principal components of the other liabilities, are payables to point of sale acquiring merchants, payables on derivative intruments and other transitory accounts.

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.

In addition to above other liabilities include a free provision for general possible risk of TL 700,000 thousand which consists of TL 500,000 thousand recognized in the current period and TL 200,000 thousand that is recognized in prior periods by the Bank management in line with the conservatisim principle considering the circumstances that may arise from possible changes in the economy and market conditions.

At 31 December 2017, payables to point of sale acquiring merchants of TL 464,790 (31 December 2016: TL 414,591) 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

	31 December 2017	31 December 2016
Balance sheet obligations for:		
- Reserve for employment termination benefits	209,829	146,104
- Accrual for unused vacation	91,124	81,978
- Post-employment benefits (pension and medical)	-	-
Total	**300,953**	**228,082**

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 2017 and 2016.

	31 December 2017	31 December 2016
Income statement charge for:		
- Post-employment benefits (pension and medical)	(204,575)	(175,248)
- Reserve for employment termination benefits	(47,367)	(49,704)
- Accrual for unused vacation	(9,147)	(13,099)
Total	**(261,089)**	**(238,051)**

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:

	31 December 2017	31 December 2016
Present value of funded obligations	(1,275,192)	(1,184,939)
- Pension benefits transferrable to SSI	(1,757,542)	(1,635,774)
- Post-employment medical benefits transferrable to SSI (*)	969,843	768,218
- Other non-transferrable benefits	(487,493)	(317,383)
Fair value of plan assets	1,551,402	1,394,112
Surplus	**276,210**	**209,173**

(*) 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 2017 prepared considering the related articles of the New Law regarding the transferrable benefit obligations and 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 to the estimated 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 2017, the surplus of the Fund, including the obligation for other non-transferable benefits of TL 487,493 (31 December 2016: TL 317,383) is to TL 276,210 (31 December 2016: TL 209,173).

The principal actuarial assumptions used were as follows:

	31 December 2017	31 December 2016
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	4.21	4.49

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:

	31 December 2017	31 December 2016
Beginning of year	**1,394,112**	**1,288,959**
Actual return on plan assets	238,028	198,804
Employer contributions	204,575	175,248
Employee contributions	174,371	149,708
Benefits paid	(459,684)	(418,607)
End of year	**1,551,402**	**1,394,112**

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

NOTE 19 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Plan assets are comprised as follows:

	31 December 2017		31 December 2016	
Bank placements	977,331	63%	999,280	72%
Premises and equipment	18,242	1%	19,135	1%
Securities	397,520	26%	279,076	20%
Other	158,309	10%	96,621	7%
Period end	**1,551,402**	**100%**	**1,394,112**	**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, dies or who retires.

The compensation amount equals to one month’s salary of an employee for each year of service, but this amount is limited up to severance limit decided by law. This liability is not subject to any funding legally and there is no funding requirement.

The amount payable consists of one month’s salary limited to a maximum of TL 5,001.76 (in full TL amount) (1 January 2017: TL 4,426.16 (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:

	31 December 2017	31 December 2016
Discount rate (%)	4.00	3.64
Turnover rate to estimate the probability of retirement (%)	94.45	94.07

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 5,001.76 (1 January 2017: TL 4,426.16 (in full TL amount)) effective from 1 January 2018 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:

	31 December 2017	31 December 2016
1 January	**146,105**	**124,027**
Increase during the year	46,243	49,704
Actuarial loss/(gain)	53,510	20,240
Paid during the year	(36,029)	(47,867)
End of year	**209,829**	**146,104**

(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 2016: TL 4,000,000) and consists of TL 4,000,000 (31 December 2016: TL 4,000,000) authorized shares with a nominal value of Kr 1 each.

At 31 December 2017 and 2016, the issued and fully paid-in share capital held is as follows:

	Audited 31 December 2017		**Audited 31 December 2016**	
	Share (%)	**TL**	**Share (%)**	**TL**
Total Sabancı Group, affiliated companies and family	48.86	1,954,225	48.86	1,954,225
Other	51.14	2,045,775	51.14	2,045,775
Historical share capital	100.00	4,000,000	100.00	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 2017, the Bank has paid dividend payment in cash with respect to 31 December 2016 net distributable profit after the transfer of first and legal reserves amounting to TL 900,000 (TL 0.0015 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

	31 December 2017	31 December 2016
Interest income on:		
Loans and advances to customers	19,593,737	15,376,016
Investment and trading securities	4,220,083	3,189,980
Deposits with banks	541,795	352,696
Other interest income	33,853	42,943
Total interest income	**24,389,468**	**18,961,635**

	31 December 2017	31 December 2016
Interest expense on:		
Deposits	10,337,683	8,047,471
Funds borrowed	856,081	598,231
Interbank money market deposits	786,677	1,000,344
Interest on debt securities in issue	1,071,253	791,182
Other interest expenses	44,975	33,938
Total interest expense	**(13,096,669)**	**(10,471,166)**

NOTE 23 - NET FEE AND COMMISSION INCOME

	31 December 2017	31 December 2016
Fee and commission income on:		
Credit Cards	1,807,547	1,563,926
Retail and commercial banking operations	586,524	549,242
Mutual fund management fee	96,196	83,824
Insurance intermediary	272,570	226,172
Non-cash loans	262,864	202,294
Money transfers	311,024	212,931
Brokerage commission	104,827	107,757
Other	254,743	179,378
Total income	**3,696,295**	**3,125,524**
Fee and commission expense on:		
Credit cards	(576,683)	(437,056)
Other	(145,700)	(105,194)
Total expense	**(722,383)**	**(542,250)**
Net fee and commission income	**2,973,912**	**2,583,274**

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

NOTE 24 - NET TRADING INCOME/(LOSS)

	31 December 2017	31 December 2016
Derivative financial instruments	(961,718)	396,195
Trading and available-for-sale securities	228,099	185,446
	(733,619)	**581,641**

NOTE 25 - OPERATING EXPENSES

	31 December 2017	31 December 2016
Employee costs	1,979,489	1,813,528
Credit card and banking services	549,689	382,743
Legal expenses	122,842	125,791
Depreciation charges of property, plant and equipment (Note 12)	153,953	130,463
Marketing and advertisement expenses	139,861	131,620
Computer maintenance and support expenses	313,595	246,443
Communication expenses	144,890	136,465
Saving deposits insurance fund	202,869	181,180
Sundry taxes and duties	179,267	182,887
Heating, lighting and water expenses	50,317	48,517
Amortization of other intangible assets (Note 13)	121,826	86,616
Repair and maintenance expenses	31,173	25,820
Stationery expenses	37,337	26,160
Operating lease expenses	205,539	187,913
Other (*)	683,718	758,768
Free provision for general possible risks (Note 18)	500,000	-
	5,416,365	**4,464,914**

(*) 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 27,819 (31 December 2016: TL 92,180). 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 2017 which amount to TL 204,575 (31 December 2016: TL 175,248), TL 47,367 (31 December 2016: TL 49,704) and TL 9,147 (31 December 2016: TL 13,099), 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:

	31 December 2017		31 December 2016	
	Assets	**Related liability**	**Assets**	**Related liability**
Balances with other banks (Note 7)	4,541,840	34,317,864	5,356,843	28,007,020
Trading securities (Note 8)	9,731		9,721	-
- legal requirements	9,731		9,721	-
Investment securities (Note 11)				
- available-for-sale	3,470,880		2,062,303	-
- legal requirements	3,470,880		2,062,303	-
- held-to-maturity	1,538,500		2,235,760	-
- legal requirements	1,538,500		2,235,760	-
Total	**9,560,951**	**34,317,864**	**9,664,627**	**28,007,020**

(b) Transferred Assets that are not Derecognized:

	31 December 2017		31 December 2016	
	Assets	**Related liability**	**Assets**	**Related liability**
Trading securities (Note 8)				
- repurchase agreement	200	-	569	-
Investment securities (Note 11)				
- available-for-sale	20,055,533	18,643,248	16,282,871	16,445,198
- repurchase agreement	20,055,533	18,643,248	16,282,871	16,445,198
- held-to-maturity	10,088,384	10,207,028	10,736,166	9,597,471
- repurchase agreements	10,088,384	10,207,028	10,736,166	9,597,471
Total	**30,144,117**	**28,850,276**	**27,019,606**	**26,042,669**

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:

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

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

(a) Legal proceedings

The bank has accounted a provision amounting to TL 61,982 (31 December 2016: TL 61,076) 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.

(b) Commitments under derivative instruments:

The breakdown of notional amounts of derivative transactions at 31 December 2017 and 2016 is as follows:

	31 December 2017					
	USD	**EUR**	**GBP**	**Other**	**TL**	**Total**
Derivatives held for trading:						
Currency forward transactions	5,914,527	2,861,372	182,505	11,589	5,985,151	14,955,144
Swap transactions	87,509,724	35,988,796	1,996,637	859,436	33,906,795	160,261,388
- Currency rate swaps	52,306,994	25,766,342	1,996,637	859,436	32,237,645	113,167,054
- Interest rate swaps	35,202,730	10,222,454	-	-	1,669,150	47,094,334
Spot transactions	2,226,166	1,674,432	47,735	24,155	1,062,139	5,034,627
Option transactions	36,244,399	6,140,588	13,619	784	7,744,738	50,144,128
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	5,659,570	559,663	-	6,691	-	6,225,924
Derivatives held for hedging:						
Swap transactions	15,232,123	-	-	10,220	-	15,242,343
- Interest rate swaps	11,759,837	-	-	-	-	11,759,837
- Currency rate swaps	3,472,286	-	-	10,220	-	3,482,506
Total purchases	**152,786,509**	**47,224,851**	**2,240,496**	**912,875**	**48,698,823**	**251,863,554**
Derivatives held for trading:						
Currency forward transactions	5,997,016	2,635,670	15,112	17,738	6,297,263	14,962,799
Swap transactions	65,742,916	36,464,186	238,701	660,859	52,685,277	155,791,939
- Currency rate swaps	30,540,186	26,241,732	238,701	660,859	51,016,127	108,697,605
- Interest rate swaps	35,202,730	10,222,454	-	-	1,669,150	47,094,334
Spot transactions	2,528,618	1,309,235	8,127	5,766	1,198,891	5,050,637
Option transactions	35,034,983	6,180,269	14,629	784	9,230,098	50,460,763
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	4,204,710	447,730	-	3,883,316	87,376	8,623,132
Derivatives held for hedging:						
Swap transactions	11,759,836	10,151	-	-	2,497,225	14,267,212
- Interest rate swaps	11,759,836	-	-	-	-	11,759,836
- Currency rate swaps	-	10,151	-	-	2,497,225	2,507,376
Total sales	**125,268,079**	**47,047,241**	**276,569**	**4,568,463**	**71,996,130**	**249,156,482**
Off-balance sheet net notional position	**27,518,430**	**177,610**	**1,963,927**	**(3,655,588)**	**(23,297,307)**	**2,707,072**

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

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

	31 December 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**

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:

	31 December 2017			31 December 2016		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Currency forward purchases	1,550,271	2,803,325	4,353,596	1,464,374	2,486,997	3,951,371
Currency forward sales	(1,503,758)	(2,894,328)	(4,398,086)	(1,344,679)	(2,506,391)	(3,851,070)
Currency swap purchases	1,574,615	89,546	1,664,161	317,928	-	317,928
Currency swap sales	(97,208)	(1,675,717)	(1,772,925)	-	(383,250)	(383,250)
Interest rate swap purchases	-	724,970	724,970	-	803,677	803,677
Interest rate swap sales	-	(724,970)	(724,970)	-	(803,677)	(803,677)
Option purchases	-	-	-	-	-	-
Option sales	-	-	-	-	-	-
Spot purchases	-	-	-	-	-	-
Spot sales	-	-	-	-	-	-
Other purchases	-	-	-	-	-	-
Other sales	-	-	-	-	-	-
Net position	**1,523,920**	**(1,677,174)**	**(153,254)**	**437,623**	**(402,644)**	**34,978**

(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 2017 and 2016:

	31 December 2017			31 December 2016		
	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	4,336,696	14,454,473	18,791,169	2,509,799	11,211,636	13,721,435
- Foreign currency	1,476,482	14,665,557	16,142,039	1,442,701	11,987,656	13,430,357
Acceptance credits						
- Turkish lira	198	-	198	-	-	-
- Foreign currency	2,900,904	857,000	3,757,904	3,569,372	13,857	3,583,229
Letter of credit						
- Turkish lira	7,257	-	7,257	260	-	260
- Foreign currency	5,284,401	1,642,667	6,927,068	2,358,258	2,874,258	5,232,516
Other guarantees						
- Turkish lira	23,759	2,825,471	2,849,230	36,149	2,218,608	2,254,757
- Foreign currency	3,399,734	89,196	3,488,930	1,707,973	416,609	2,124,582
Total	**17,429,431**	**34,534,364**	**51,963,795**	**11,624,512**	**28,722,624**	**40,347,136**

Letters of guarantee and acceptance credits for related parties amount to TL 923,699 (31 December 2016: TL 900,600) at 31 December 2017.

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

	31 December 2017	31 December 2016
Financial institutions	7,014,506	6,434,627
Electricity, gas, water	2,004,757	2,069,335
Chemicals	2,791,301	3,038,954
Small-scale retailers	4,862,996	3,886,301
Construction	6,505,761	4,845,122
Steel and mining	3,152,082	2,086,619
Wholesaling	10,267,543	8,348,394
Automotive	887,705	962,269
Other manufacturing	3,280,903	1,454,656
Food and beverage	798,144	616,372
Electronics	676,712	639,372
Textile	1,512,598	988,336
Transportation	621,471	1,170,173
Agriculture and forestry	165,071	54,738
Tourism	279,186	246,249
Telecommunications	224,582	153,924
Other	6,918,475	3,351,695
Total	**51,963,795**	**40,347,136**

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

NOTE 28 - RELATED PARTY TRANSACTIONS

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

(a) Balances with related parties:

	31 December 2017	31 December 2016
Loans and receivables, net	5,605,978	4,591,797
Finance lease receivables	64,362	88,173
Total Assets	**5,670,340**	**4,679,970**
Deposits and obligations under repurchase agreements (Note 15)	11,148,292	9,736,546
Total Liabilities	**11,148,292**	**9,736,546**
Credit related commitments	923,699	900,600
Commitment under derivative instruments (*)	13,638,708	10,110,973
Total Commitments and contingent liabilities	**14,562,407**	**11,011,573**

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

As at 31 December 2017, the Group has repurchase commitments amounting to TL 37,919 (31 December 2016: TL 31,913) with Sabancı Holding Group companies and other related parties.

(b) Transactions with related parties:

	31 December 2017	31 December 2016
Interest income on loans	493,633	371,473
Interest income	**493,633**	**371,473**
Interest expense on deposits (Note 15)	897,719	768,969
Interest expense	**897,719**	**768,969**

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

	31 December 2017	31 December 2016
Deposits	926,384	858,961
Total due to customers	**926,384**	**858,961**

For the period ended 31 December 2017, benefits provided to the senior management and Board of Directors of the Group amounted to TL 46,907 (31 December 2016: TL 38,600).

NOTE 29 - SUBSEQUENT EVENTS

Bank's Board of Directors authorized management to establish a 100% owned company in Istanbul, titled AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş.. Related procedures regarding the establishment of the company have been completed and it has been registered by the Istanbul Trade Registry Office.

TL 774 million (in full TL princiopal amount) portion of the Bank's non-performing loan portfolio has been sold at a price of TL 36 million (in full TL amount) to 3 companies Efes Varlık Yönetim A.Ş., Hayat Varlık Yönetimi A.Ş. and Final Varlık Yönetimi A.Ş.

Issuance of subordinated notes has been completed on 27 February 2018 and the size has been determined as USD 400 million with a call option on 27 April 2023 and due 27 April 2028. The application regarding the issuance certificate is approved by Capital Market Board.

In the General Assembly Meeting of the Bank held on March 26, 2018, it has been decided to distribute a TL 1,600,000 cash dividend over the TL 6,039,069 net unconsolidated income from 2017 operations to the Bank's shareholders. It has been also been decided in General Assembly Meeting to allocate TL 7,123 as Special Reserve Account, TL 140,000 as Legal Reserves and the remaining profit as Extraordinary Reserves.

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