AKBANK T.A.Ş.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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REPORT ON REVIEW OF INTERIM
CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

Introduction

1. We have reviewed the accompanying interim condensed consolidated statement of financial position of Akbank T.A.Ş., and its subsidiaries (collectively referred to as the "Group") as of 30 June 2017 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

3. The accompanying interim condensed consolidated financial information as at 30 June 2017 include a free provision amounting to TL 200.000 thousand and the related deferred tax amounting to TL 40.000 thousand which had been recognized by the Bank management in the prior periods in line with the conservatism principle considering the circumstances that may arise from possible changes in the economy and market conditions.

Qualified Conclusion

4. Based on our review, except for the effects of the matter on the interim condensed consolidated financial information described in the basis for qualified conclusion paragraph above, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Other Matter

5. The interim condensed 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 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.

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

Talar Gül, SMMM
Partner

Istanbul, 18 August 2017

AKBANK T.A.Ş.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Notes	Unaudited 30 June 2017	Audited 31 December 2016
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey	6	47,629,451	45,398,500
Trading securities	7	88,278	63,921
Derivative financial instruments	8	7,801,684	8,428,812
Loans and advances to customers	9	192,483,629	181,024,088
Investment securities:			
- Available-for-sale	10	38,579,611	34,810,980
- Held-to-maturity	10	18,261,456	17,976,870
Property, plant and equipment	11	3,320,705	881,360
Intangible assets	11	348,192	361,527
Deferred income tax assets		642,769	639,322
Current tax assets		-	2,561
Other assets and pre-payments		3,813,671	2,650,686
Total assets		**312,969,446**	**292,238,627**
LIABILITIES			
Deposits and obligations under repurchase agreements	12	211,383,005	200,010,473
Interbank money market deposits	13	1,473,284	1,277,373
Derivative financial instruments	8	4,129,493	4,698,838
Funds borrowed	13	20,333,359	19,887,976
Debt securities in issue	13	26,680,930	24,949,611
Income taxes payable		362,919	289,159
Other liabilities and accrued expenses		9,361,993	7,511,580
Employment benefit obligations	14	233,737	228,082
Deferred tax liabilities		569,462	227,719
Total liabilities		**274,528,182**	**259,080,811**
EQUITY			
Capital and reserves attributable to the equity holders of the parent:			
- Share capital	15	4,000,000	4,000,000
- Adjustment to share capital	15	1,529,151	1,529,151
Total paid-in share capital	15	5,529,151	5,529,151
Share premium		1,709,098	1,709,098
Translation reserve		962,259	774,698
Other reserves		1,403,301	(1,552,908)
Retained earnings		28,837,321	26,697,647
		38,441,130	**33,157,686**
Non-controlling interest		134	130
Total equity		**38,441,264**	**33,157,816**
Total liabilities and equity		**312,969,446**	**292,238,627**

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD ENDED 30 JUNE 2017

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousand

	Notes	Unaudited 30 June 2017	Unaudited 30 June 2016
Interest income		11,244,284	9,194,906
Interest expense		(5,943,418)	(5,127,027)
Net interest income		**5,300,866**	**4,067,879**
Fee and commission income	16	1,754,398	1,543,281
Fee and commission expense	16	(323,372)	(249,262)
Net fee and commission income		**1,431,026**	**1,294,019**
Impairment losses on loans and credit related commitments, net	9	(511,115)	(724,504)
Foreign exchange gains and losses, net		(3,134)	186,978
Trading gains and losses, net		(165,170)	92,151
Dividend income		2,557	2,599
Other operating income		117,768	333,483
Operating income		**6,172,798**	**5,252,605**
Operating expenses	17	(2,345,338)	(2,126,502)
Profit before income taxes		**3,827,460**	**3,126,103**
Income taxes			
Current		(745,136)	(646,281)
Deferred		(42,646)	30,420
Profit for the period		**3,039,678**	**2,510,242**
Attributable to:			
Equity holders of the Group		3,039,674	2,510,236
Non-controlling interest		4	6
		3,039,678	**2,510,242**
Basic and diluted earnings per share (expressed in TL, full amount, per share)	4	0.0076	0.0063

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Unaudited 30 June 2017	Unaudited 30 June 2016
Net profit for the period	**3,039,678**	**2,510,242**
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Gain/(Loss) on available-for-sale financial assets	1,008,768	1,038,395
Foreign exchange differences on translation of foreign operations	187,561	16,655
Gain/(Loss) from cash flow hedges (effective part of fair value changes)	(43,259)	(29,109)
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(97,184)	(10,752)
Tax related to gains and losses recognized directly in equity (*)	(173,666)	(199,707)
	882,220	**815,482**
Available-for-sale financial assets	(70,709)	(271,264)
Cash flow hedges	20,191	23,263
Tax related to gains/losses transferred to income statement (**)	10,104	49,600
Net gains/losses transferred to income statement	**(40,414)**	**(198,401)**
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**841,806**	**617,081**
Net other comprehensive income not being reclassified to profit or loss in subsequent periods	**2,301,963**	**-**
Remeasurement gains/(losses) on defined benefit plans, net of taxes	15	-
Property and Plant Revaluation Differences	2,301,948	-
Other comprehensive income net of tax	**3,143,769**	**617,081**
Total comprehensive income, net of tax	**6,183,447**	**3,127,323**
Attributable to:		
Equity holders of the Group	6,183,443	3,127,317
Non-controlling interest	4	6

(*) 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 (201,754), TL 8,652 and TL 19,437 respectively (30 June 2016: TL (207,679), TL 5,822 and TL 2,150).

(**) Tax effects of transfer from available-for-sale reserves and cash flow reserves to profit or loss amount to TL 14,142 and TL (4,038) respectively (30 June 2016: TL 43,402 and TL (3,781)).

AKBANK T.A.Ş.

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Share capital			Attributable to equity holders of the Group								
	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	-	-	-	-	-	-	-	-	-	-	-	-
Net unrealized market value gains(losses) from available-for-sale portfolio	-	-	-	-	-	-	830,716	-	-	-	-	830,716
Net gains on available-for-sale portfolio transferred to the income statement	-	-	-	-	-	-	(265,641)	-	-	-	-	(265,641)
Net gains and losses recycled to the income statement						-						
due to transfer of available-for-sale into held-to-maturity portfolio	-	-	-	-	-	-	48,630	-	-	-	-	48,630
Cash flow hedges, net of tax	-	-	-	-	-	-	-	(4,677)	-	-	-	(4,677)
Translation reserve	-	-	-	-	16,655	-	-	-	-	-	-	16,655
Gains on hedges of a net investment in a foreign operation, net of tax	-	-	-	-	-	-	-	(8,602)	-	-	-	(8,602)
Other comprehensive income (expense)	-	-	-	-	16,655	-	613,705	(13,279)	-	-	-	617,081
Profit for the period	-	-	-	-	-	-	-	-	-	2,510,236	6	2,510,242
Total comprehensive income for the period	-	-	-	-	16,655	-	613,705	(13,279)	-	2,510,236	**6**	3,127,323
Dividends paid	-	-	-	-	-	-	-	-	-	(600,000)	-	(600,000)
Effect of capital increase		-	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2016	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**461,310**	**-**	**(496,808)**	**(291,909)**	**(56,919)**	**24,276,804**	**125**	**31,130,852**
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 Gains and Losses	-	-	-	-	-	-	-	-	15	-	-	15
Net unrealized market value gains (losses) from available-for-sale portfolio	-	-	-	-	-	-	807,014	-	-	-	-	807,014
Net gains on available-for-sale portfolio transferred to the income statement	-	-	-	-	-	-	(118,998)	-	-	-	-	(118,998)
Net gains and losses recycled to the income statement												
due to transfer of available-for-sale into held-to-maturity portfolio	-	-	-	-	-	-	62,431	-	-	-	-	62,431
Cash flow hedges, net of tax	-	-	-	-	-	-	-	(18,454)	-	-	-	(18,454)
Translation reserve	-	-	-	-	187,561	-	-	-	-	-	-	187,561
Gains on hedges of a net investment in a foreign operation, net of tax	-	-	-	-	-	-	-	(77,747)	-	-	-	(77,747)
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	2,301,948	-	-	-	-	-	2,301,948
Other comprehensive income (expense)	-	-	-	-	187,561	2,301,948	750,447	(96,201)	15	-	-	3,143,770
Profit for the period	-	-	-	-	-	-	-	-	-	3,039,674	4	3,039,678
Total comprehensive income for the period	-	-	-	-	187,561	2,301,948	750,447	(96,201)	15	3,039,674	4	6,183,448
Dividends paid	-	-	-	-	-	-	-	-	-	(900,000)	-	(900,000)
Effect of capital increase	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2017	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**962,259**	**2,301,948**	**(406,860)**	**(418,691)**	**(73,096)**	**28,837,321**	**134**	**38,441,264**

(*) Legal reserves amounting to TL 1,469,241 in the statutory financial statements are undistributable (31 December 2016: 1,386,657).

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

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

Consolidated Statement of Cash Flow	Notes	Unaudited 30 June 2017	Unaudited 30 June 2016
Profit before income tax		3,827,460	3,126,103
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	17	75,680	65,016
Amortization of intangible assets	17	58,093	40,485
Provision for loan losses, write off and net of recoveries	9	(217,743)	261,007
Employment termination benefits and other short-term employee benefits		5,655	5,463
(Gain)/loss on derivative financial instruments		57,783	(503,191)
Interest accrual		(5,834,897)	1,172,919
Other non-cash items		(168,304)	(40,135)
Taxes paid		(702,893)	(604,455)
Operating profit before changes in operating assets and liabilities		**(2,899,166)**	**3,523,212**
Net (increase) in reserve requirements with the Central Bank of Turkey and restricted cash		(2,230,951)	(9,330,689)
Net (increase) in loans and advances to customers		(11,459,541)	249,649
Net (increase)/decrease in trading securities		(24,357)	(30,244)
Net decrease/(increase) in other assets and prepayments		(1,162,985)	26,653
Net increase in other liabilities and accrued expenses		1,850,413	936,845
Net increase in customer deposits and interbank money market deposits		11,568,443	3,478,185
Net cash from operating activities		**(4,358,144)**	**(1,146,389)**
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	11	97,424	(10,126)
Proceeds from property, plant and equipment		(20,938)	6,012
Purchase of other intangible assets	11	(74,297)	(54,081)
Proceeds from other intangible assets		56,874	153,173
Proceeds from investment securities		6,394,730	13,735,707
Purchase of investment securities		(8,456,440)	(9,943,895)
Net cash used in investing activities		**(2,002,647)**	**3,886,790**
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue		4,383,449	3,328,567
Payments of borrowed funds and debt securities in issue		(2,176,702)	(7,529,995)
Dividends paid to equity holders	15	(900,000)	(600,000)
Net cash (used in)/from financing activities		**1,306,747**	**(4,801,428)**
Effect of exchange rates on cash and cash equivalents		**457,741**	**(15,290)**
Net increase/(decrease) in cash and cash equivalents		**(4,596,303)**	**(2,076,317)**
Cash and cash equivalents at the beginning of the period	6	**12,827,451**	**7,109,441**
Cash and cash equivalents at the end of the period	6	**8,231,148**	**5,033,124**

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 30 June 2017, the Bank has 839 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 30 June 2017, the Group employed 14,230 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 Borsa İstanbul ("BIST") 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 30 June 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 30 June 2017 have been approved on 18 August 2017 by S. Hakan Binbaşgil, the Chief Executive Officer and by Atıl Özus, the Chief Financial Officer of Akbank T.A.Ş.. Authorized boards of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These interim condensed consolidated financial statements for the period ended 30 June 2017 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016.

The interim condensed consolidated financial statements have been prepared in TL, under the historical cost convention except for the financial assets and liabilities carried 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 interim condensed consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

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

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 30 June 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 2017. 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 30 June 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.

Amendments IAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Annual improvements 2014–2016, 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.

ii) Standards, amendments and interpretations effective after 30 June 2017

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)

IFRS 9 'Financial instruments', issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets and for general hedge accounting (i.e. micro hedging). IFRS 9 is mandatory for annual periods beginning on or after 1 January 2018.

According to IFRS 9, classification and measurement of financial assets will depend on the business model and the contractual characteristics of the instruments. On initial recognition, financial assets will be measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss. Investments in equity instruments such as shares will be classified as instruments at fair value through profit or loss, or, as an option, as instruments at fair value through other comprehensive income. The only change introduced by IFRS 9 with respect to financial liabilities relates to recognition of changes in fair value attributable to changes in the credit risk of the liabilities designated as at fair value through profit or loss (fair value option), which will be recognised in other comprehensive income and not through profit or loss.

Application of these criteria may lead to different classification and measurement of some financial assets compared with IAS 39. Based on the analysis performed for the classification and measurement phase of the standard, the Group does not expect any significant impact on its financial statements.

IFRS 9 establishes a new credit risk impairment model based on expected losses. Under the impairment model in IAS 39, an impairment loss is recognised when there is an objective evidence of a decrease in value. Counterparties that are not individually impaired are risk-assessed on the basis of portfolios with similar characteristics and groups of counterparties which, as a result of events occurring since inception of the loans present objective indication of impairment, are subject to a portfolio-based impairment. The new impairment model under IFRS 9 requires accounting for 12-month expected credit losses (that result from the risk of default in the next 12 months) on the financial instruments issued or acquired, as of the date of initial recognition on the balance sheet. Expected credit losses at maturity (that result from the risk of default over the life of the financial instrument) must be recognised if the credit risk has increased significantly since initial recognition. This model will apply to loans and debt instruments measured at amortised cost or at fair value through other comprehensive income, to loan commitments and financial guarantees not recognised at fair value, as well as to lease receivables.

The IFRS 9 implementation project for the impairment phase is in process. At this stage, the project focuses mainly on refining the methodology for the new impairment model, key concepts and management judgements, planning the IT infrastructure and assessment of impact on the financial statements.

IFRS 9 is applied retrospectively, although comparatives are not restated, and adjustments arising from initial application in 2018 will be recognised in opening equity.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 licenses 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.

IFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching 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. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. 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.

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
- will 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Annual improvements 2014–2016; 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 effective on 1 January 2018. IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective on 1 January 2018.

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.

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.

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

(b) Consolidation

Consolidation principles for subsidiaries:

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

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

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

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

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 ("CMB") 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.

Akbank (Dubai) Limited was established in December 2009 in Dubai International Finance Center (DIFC) to provide intermediary services on acquisition and mergers, consultancy about financial instruments, intermediary services on loan and investment instruments. As of 27 December 2016, The Board of Directors of the Bank decided to liquidate Akbank (Dubai) Limited and open a representative office in same location. The process of opening the representative office has been ended with a decision of the Board of Directors of the bank, dated 24 July 2017. The liquidation process of Akbank (Dubai) Limited is continuing.

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

A.R.T.S. Ltd. is a "Structured Entity" which was established in November 1999 for the purpose of supplying long term financing.

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Derivative financial instruments and hedge accounting

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

(i) Cash flow and Fair value hedges

The Group hedges its TL and foreign 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 or sold and when the hedge relationship becomes ineffective 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 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Net Investment Hedge

The Group hedges the net investment risk on 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 30 June 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 30 June 2017, the net-off tax amount of TL (435,912) (31 December 2016: TL (358,165)) is accounted under hedge reserves as an investment hedge reserve.

(iii) Derivatives that do not qualify for hedge accounting

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

(iv) Embedded derivatives

An embedded derivative shall be separated from host contract 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 combined instrument is not measured at fair value with changes in fair value recognized in profit or loss

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investment securities

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

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

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

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

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

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

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

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. 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 Bank also sets the estimated inflation rate accordingly. The estimated inflation rate used is updated as needed within the year.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. At 30 June 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 the settlement date, which is the date that the asset is delivered to/by the Group.

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

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

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

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

(h) Sale and repurchase agreements

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

(i) Fee and commission income and expenses

Fee and commission income and expenses are recognized on an accrual basis except for certain commission income and fees for various banking services which are recorded as income at the time of collection. Borrowing fees and commissions expenses paid to other financial institutions are recognized as transaction costs and recorded using the "Effective interest rate method". Contract based fees or fees received in return for services such as the purchase and sale of assets on behalf of a third party or legal person are recognized as income at the time of collection.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Interest income and expense

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

(k) Related parties

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

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

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

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

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

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

(l) Financial liabilities

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Property, plant and equipment

The Bank has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with "TAS 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	4-7 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.

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) Accounting for leases

(i) A group company is the lessee

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

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

(ii) A group company is the lessor

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

(p) 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.

(r) 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).

(s) 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 21)

(t) Comparatives

In order to be consistent with the presentation of financial statements dated 30 June 2017, there are certain reclassifications made on income statement dated 30 June 2016.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND 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.

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. 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.

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.

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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

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 30 June 2017 (31 December 2016: None).

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

	30 June 2017	**30 June 2016**
Profit attributable to equity holders of the Group	3,039,674	2,510,236
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)	**0.0076**	**0.0063**

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 and private banking, foreign exchange, money markets, securities transactions (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 asseon t-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.

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 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.

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, 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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

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.

	30 June 2017					
	Foreign currency					
	EUR	**USD**	**GBP**	**Other**	**TL**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	9,747,190	23,172,348	72,365	4,764,567	9,872,981	47,629,451
Trading and investment securities	5,939,874	25,022,460	-	545,385	25,421,626	56,929,345
Derivative financial instruments	401,381	2,152,550	687	69,666	5,177,400	7,801,684
Loans and advances to customers	39,014,485	38,024,384	10,062	102,578	115,332,120	192,483,629
Property, plant and equipment	844	7,064	-	-	3,312,797	3,320,705
Intangible assets	1,613	-	-	-	346,579	348,192
Deferred tax assets	164	-	-	-	642,605	642,769
Current Tax	-	-	-	-	-	-
Other assets and pre-payments	461,386	916,593	75	312	2,435,305	3,813,671
Total assets	**55,566,937**	**89,295,399**	**83,189**	**5,482,508**	**162,541,413**	**312,969,446**
Deposits and obligations under repurchase agreements	44,763,033	74,387,413	2,015,768	2,264,912	87,951,879	211,383,005
Derivative financial instruments	417,091	575,079	2,413	2,292	3,132,618	4,129,493
Interbank money market deposits, funds borrowed and debt securities in issue	10,782,905	31,817,129	1,140	158,293	5,728,106	48,487,573
Income taxes payable	18,628	-	-	-	344,291	362,919
Other liabilities and accrued expenses	1,009,574	767,270	1,991	10,634	7,572,524	9,361,993
Deferred tax liability	113,100	-	-	-	456,362	569,462
Employment benefit obligations	72	-	-	-	233,665	233,737
Equity and non-controlling interest	-	-	-	-	38,441,264	38,441,264
Total liabilities and equity	**57,104,403**	**107,546,891**	**2,021,312**	**2,436,131**	**143,860,709**	**312,969,446**
Net balance sheet position	**(1,537,466)**	**(18,251,492)**	**(1,938,123)**	**3,046,377**	**18,680,704**	**-**
Off-balance sheet derivative instruments net notional position	**2,527,390**	**18,661,275**	**1,934,426**	**(2,987,911)**	**(17,653,667)**	**2,481,513**

As of 30 June 2017, 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 3.9934=EUR 1.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2016					
	Foreign currency					
	EUR	**USD**	**GBP**	**Other**	**TL**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	8,995,039	29,985,213	75,904	828,176	5,514,168	45,398,500
Trading and investment securities	5,603,645	23,035,304	-	513,938	23,698,884	52,851,771
Derivative financial instruments	1,041,428	2,415,343	1,133	86,935	4,883,973	8,428,812
Loans and advances to customers	35,942,621	41,652,192	18,424	99,059	103,311,792	181,024,088
Property, plant and equipment	656	1,772	-	-	878,932	881,360
Intangible assets	957	-	-	-	360,570	361,527
Deferred tax assets	97	14,295	-	-	624,930	639,322
Current Tax	-	-	-	-	2,561	2,561
Other assets and pre-payments	469,784	855,346	56	276	1,325,224	2,650,686
Total assets	**52,054,227**	**97,959,465**	**95,517**	**1,528,384**	**140,601,034**	**292,238,627**
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
Deferred tax liability	102,876	-	-	-	124,843	227,719
Employment benefit obligations	118	743	-	-	227,221	228,082
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**

As of 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 - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

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 as of 30 June 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.

	30 June 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	30,551,970	6,383	-	-	17,071,098	47,629,451
Trading and investment securities	11,826,497	15,900,344	22,154,326	6,676,814	371,364	56,929,345
Derivative financial instruments	4,653,325	1,543,333	871,057	639,894	94,075	7,801,684
Loans and advances to customers	66,039,641	55,155,015	61,950,147	9,138,177	200,649	192,483,629
Property, plant and equipment	-	-	-	-	3,320,705	3,320,705
Intangible assets	-	-	-	-	348,192	348,192
Deferred tax assets	-	-	-	-	642,769	642,769
Current Tax	-	-	-	-	-	-
Other assets and pre-payments	357,171	190,145	485,779	369,343	2,411,233	3,813,671
Total assets	**113,428,604**	**72,795,220**	**85,461,309**	**16,824,228**	**24,460,085**	**312,969,446**
Deposits and obligations under repurchase agreements	152,081,227	20,331,782	6,087,131	493,996	32,388,869	211,383,005
Interbank money market deposits, funds borrowed and debt securities in issue	28,465,239	11,333,579	3,347,210	5,341,545	-	48,487,573
Derivative financial instruments	1,893,561	1,160,607	715,293	360,032	-	4,129,493
Income taxes payable	-	-	-	-	362,919	362,919
Other liabilities and accrued expenses	1,059,589	469,784	378,560	112,913	7,341,147	9,361,993
Employment benefit obligations	-	-	-	-	233,737	233,737
Deferred tax liability	-	-	-	-	569,462	569,462
Total liabilities	**183,499,616**	**33,295,752**	**10,528,194**	**6,308,486**	**40,896,134**	**274,528,182**
Net repricing period gap	**(70,071,012)**	**39,499,468**	**74,933,115**	**10,515,742**	**(16,436,049)**	**38,441,264**
Off-balance sheet derivative instruments net notional position	**24,648,025**	**4,000,653**	**(17,047,484)**	**(7,956,730)**	**-**	**3,644,464**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

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 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)**	**33,157,816**
Off-balance sheet derivative instruments net notional position	**26,562,782**	**3,978,071**	**(19,059,608)**	**(7,766,384)**	**-**	**3,714,861**

The tables below summarize effective average interest rates by major currencies for monetary financial instruments as of 30 June 2017 and 31 December 2016:

	30 June 2017			31 December 2016		
Assets	**USD (%)**	**EUR (%)**	**TL (%)**	**USD (%)**	**EUR (%)**	**TL (%)**
Cash and due from banks:						
- Time deposits in foreign banks	1.16	0.04	12.50	6.03	-	9.48
- Time deposits in domestic banks	1.56	0.86	14.66	0.92	1.54	10.57
- Interbank money market placements	-	-	14.32	-	-	9.84
- Reserve requirements with the Central Bank of Turkey	1.25	-	7.86	0.75	-	5.31
Trading securities	-	-	16.70	-	-	12.27
Loans and advances to customers	5.47	3.59	13.66	5.07	3.66	13.04
Investment securities:						
- Available-for-sale	3.95	2.37	11.21	3.71	2.38	9.52
- Held-to-maturity	4.05	3.62	11.50	4.05	3.62	9.82
Liabilities						
Deposits and obligations under repurchase agreements	2.39	1.31	10.30	2.35	1.10	8.78
Interbank and Money Market Deposits	-	-	10.13	-	1.93	8.88
Funds borrowed	2.69	1.17	9.24	2.24	0.97	9.17
Debt securities in issue	4.29	1.63	11.53	3.84	1.68	9.40

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

(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 Turkey and other Money markets.

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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

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.

	30 June 2017						
	Demand	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Unallocated**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	16,336,745	31,286,323	6,383	-	-	-	47,629,451
Trading and investment securities	367,441	2,193,744	6,389,348	35,619,327	12,355,562	3,923	56,929,345
Derivative financial instruments	94,075	882,125	1,089,255	3,515,992	2,220,237	-	7,801,684
Loans and advances to customers	560,389	49,733,572	39,740,365	80,209,974	22,089,250	150,079	192,483,629
Property, plant and equipment	-	-	-	-	-	3,320,705	3,320,705
Intangible assets	-	-	-	-	-	348,192	348,192
Deferred income tax assets	-	-	-	642,769	-	-	642,769
Current Tax	-	-	-	-	-	-	-
Other assets and pre-payments	605,719	1,348,830	190,145	475,133	369,343	824,501	3,813,671
Total Assets	**17,964,369**	**85,444,594**	**47,415,496**	**120,463,195**	**37,034,392**	**4,647,400**	**312,969,446**
Deposits and obligations under repurchase agreements	33,596,618	136,113,829	20,318,017	18,748,243	2,606,298	-	211,383,005
Interbank money market deposits, funds borrowed and debt securities in issue	-	9,034,261	16,981,794	12,715,380	9,756,138	- - -	48,487,573
Derivative financial instruments	-	1,250,558	842,547	1,040,323	996,065	-	4,129,493
Income taxes payable	-	-	362,919	-	-	-	362,919
Other liabilities and accrued expenses	381,282	7,588,213	587,045	527,366	278,087	-	9,361,993
Employment benefit obligations	-	-	-	233,737	-	-	233,737
Deferred tax liability	-	-	-	569,462	-	-	569,462
Total Liabilities	**33,977,900**	**153,986,861**	**39,092,322**	**33,834,511**	**13,636,588**	**-**	**274,528,182**
Net Liquidity Gap	**(16,013,531)**	**(68,542,267)**	**8,323,174**	**86,628,684**	**23,397,804**	**4,647,400**	**38,441,264**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2016						
	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unallocated	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 Liquidity Gap	**(9,969,291)**	**(67,453,967)**	**10,301,144**	**71,380,271**	**27,015,419**	**1,884,240**	**33,157,816**

The liabilities providing the funding sources of the Group are deposits, borrowings, marketable securities issued and money market borrowings. Deposits are the most important funding source of the Group and the diversification of these deposits by number and type of depositors with a stable structure does not create any risk concentration. The borrowings are composed of funds such as syndicated and securitized borrowings and post-financing obtained from different financial institutions with different maturity-interest structures and characteristics. There is no risk concentration in any of the funding sources of the Group.

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

	30 June 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	132,138,047	38,319,852	21,689,446	19,328,264	2,763,450	**214,239,059**
Funds borrowed and debt securities in issue	1,028,504	8,143,018	16,642,300	15,382,851	11,117,955	**52,314,628**
Interbank money market Deposits	1,474,799	-	-			**1,474,799**
Total	**134,641,350**	**46,462,870**	**38,331,746**	**34,711,115**	**13,881,405**	**268,028,486**
Letter of guarantees (*)	**1,918,287**	**2,959,581**	**18,929,835**	**4,368,096**	**17,408,758**	**45,584,557**

	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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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

	30 June 2017					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Derivatives held for trading:						
Foreign exchange derivatives:	3,907,445	505,725	1,171,551	58,687	67,269	5,710,677
– Inflow	57,329,318	24,994,130	36,345,793	16,445,404	5,758,724	140,873,369
– Outflow	(53,421,873)	(24,488,405)	(35,174,242)	(16,386,717)	(5,691,455)	(135,162,692)
Interest rate derivatives:	3,153	14,804	38,890	15,769	44,659	117,275
– Inflow	26,405	97,039	393,007	1,462,864	827,318	2,806,633
– Outflow	(23,252)	(82,235)	(354,117)	(1,447,095)	(782,659)	(2,689,358)
Derivatives held for hedging:						
Foreign exchange derivatives:	5,470	3,910	(207,286)	244,913	-	47,007
– Inflow	6,266	5,364	40,306	3,406,114	-	3,458,050
– Outflow	(796)	(1,454)	(247,592)	(3,161,201)	-	(3,411,043)
Interest rate derivatives:	(4,066)	(21,974)	(40,673)	(24,067)	6,256	(84,524)
– Inflow	2,428	45,351	140,706	709,355	226,586	1,124,426
– Outflow	(6,494)	(67,325)	(181,379)	(733,422)	(220,330)	(1,208,950)
Total inflow	**57,364,417**	**25,141,884**	**36,919,812**	**22,023,737**	**6,812,628**	**148,262,478**
(Total outflow)	**(53,452,415)**	**(24,639,419)**	**(35,957,330)**	**(21,728,435)**	**(6,694,444)**	**(142,472,043)**

	31 December 2016					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Derivatives held for trading:						
Foreign exchange derivatives:	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 October 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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

(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 30 June 2017 and 31 December 2016:

	30 June 2017		31 December 2016	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
Loans and advances to customers	192,483,629	191,465,463	181,024,088	183,424,570
Held-to-maturity investments (Net)	18,261,456	18,622,246	17,976,870	17,932,174
Financial liabilities				
Customer deposits	211,383,005	210,830,854	200,010,473	199,243,912
Interbank money market deposits, funds borrowed and debt securities in issue	48,487,573	48,490,988	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, 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 considered by means of appropriate credit spreads added on market rates when calculating the fair value of loans and advances to customers.

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

(ii) Financial liabilities

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

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

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

(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 according to the foregoing principles is given in the table below:

	30 June 2017			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities	**88,278**	**-**	**-**	**88,278**
- Government bonds	9,998	-	-	9,998
- Eurobonds	-	-	-	-
- Government bonds denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	30,190	-	-	30,190
- Other bonds	48,090	-	-	48,090
Trading Derivative Financial Instrument	**2,639**	**6,948,531**	**-**	**6,951,170**
Hedging Derivative Financial Instrument	**-**	**850,514**	**-**	**850,514**
Securities Available-for-sale	**38,278,273**	**284,241**	**-**	**38,562,514**
- Government bonds	19,312,596	-	-	19,312,596
- Eurobonds	12,229,051	-	-	12,229,051
- Treasury bills	2,336	-	-	2,336
- Government bonds denominated in foreign currency	-	-	-	-
- Mutual funds	249,363	-	-	249,363
- Equity securities	-	65,322	-	65,322
- Other Bonds	6,484,927	218,919	-	6,703,846
Assets for which fair values are disclosed (*)	**18,622,246**	**191,465,463**	**-**	**210,087,709**
- Loans and advances to customers	-	191,465,463	-	191,465,463
- Held-to-Maturity Investments	18,622,246	-	-	18,622,246
Government debt securities	16,065,944	-	-	16,065,944
Other marketable securities	2,556,302	-	-	2,556,302
Total assets	**56,991,436**	**199,548,749**	**-**	**256,540,185**
Liabilities carried at fair value:				
Trading derivative financial instruments	**199**	**3,989,038**	**-**	**3,989,237**
Hedging derivative financial instruments	**-**	**140,256**	**-**	**140,256**
Liabilities for which fair values are disclosed (*)	**-**	**259,321,842**	**-**	**259,321,842**
- Customer Deposits	-	210,830,854	-	210,830,854
- Interbank money market deposits, funds borrowed and debt securities in issue	-	48,490,988	-	48,490,988
Total liabilities	**199**	**263,451,136**	**-**	**263,451,335**

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

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 30 June 2017, Group's total capital has been calculated as TL 42,124,638 and the capital adequacy ratio is 15.97 %. As of 31 December 2016, Group's total capital amounted to TL 34,871,848, Capital adequacy ratio was 14.16 % calculated pursuant to former regulations. This ratio is well above the minimum ratio required by the legislation.

(k) Fiduciary activities

The Group provides custody services to third parties which involve the Group in the making of allocation, purchase and sale decisions. Assets held in a fiduciary capacity are not included in these financial statements. As of 30 June 2017, the Group has custody accounts amounting to TL 50,959,931 in nominal value (31 December 2016: TL 48,092,532).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 6 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY

Cash and due from banks comprises as follows:

	30 June 2017	31 December 2016
Cash funds:		
Cash on hand (*)	2,073,767	1,699,814
Cash in transit	63,318	140,680
Purchased cheques	10	8
	2,137,095	**1,840,502**
Current accounts and demand deposits:		
Central Bank of Turkey	9,270,267	11,415,171
Foreign banks	4,928,824	6,469,517
Domestic banks	555	3,093
	14,199,646	**17,887,781**
Time deposits:		
Central Bank of Turkey	28,416,272	21,756,612
Foreign banks	402,925	1,192,942
Domestic banks	1,922,658	2,720,626
	30,741,855	**25,670,180**
Interbank money market placements	**550,855**	**37**
Total cash and due from banks and the balances with the Central Bank of Turkey	**47,629,451**	**45,398,500**

(*) Includes precious metal accounts amounting to TL 49,722 (31 December 2016: 4,947).

As of 30 June 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 3,975,618 (31 December 2016: TL 5,356,843).

Cash and cash equivalents at the beginning of the period included in the statements of cash flows for the six-month period ended 30 June 2017 and 30 June 2016 are as follows:

	30 June 2017	30 June 2016
Cash and due from banks excluding interest and blocked accounts (*)	12,780,711	7,081,753
Trading and investment securities with original maturities of less than three months excluding accrued interest	46,740	27,688
Total	**12,827,451**	**7,109,441**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 6 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY (continued)

Cash and cash equivalents at the end of the period included in the statements of cash flows for the six-month period ended 30 June 2017 and 30 June 2016 are as follows:

	30 June 2017	30 June 2016
Cash and due from banks excluding accrued interest and blocked accounts (*)	8,160,625	5,014,380
Trading and investment securities with original maturities of less than three months excluding accrued interest	70,523	18,744
	8,231,148	**5,033,124**

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

NOTE 7 - TRADING SECURITIES

The breakdown of trading securities is as follows:

	30 June 2017	31 December 2016
Government bonds	9,998	9,865
Share certificates	30,190	7,268
Other	48,090	46,788
Total	**88,278**	**63,921**

As of 30 June 2017, security pledged under repurchase agreements with financial institutions is TL 196 (31 December 2016: TL 569).

As of 30 June 2017 trading securities amounting to TL 10,413 (31 December 2016: TL 9,721) have been pledged as collateral to financial institutions.

NOTE 8 - 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 - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

"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 30 June 2017 and 31 December 2016 are set out in the following table.

	30 June 2017		**31 December 2016**	
	Fair values		**Fair values**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives held for trading:				
Currency and interest rate swap purchases and sales	6,390,797	(3,469,061)	6,886,370	(3,900,878)
Options purchases and sales	203,421	(256,739)	262,589	(289,772)
Currency and interest rate futures purchases and sales	-	-	-	-
Forward currency purchases and sales	356,952	(263,437)	471,979	(409,197)
Other purchases and sales	-	-	-	-
Derivatives held for hedging:	-	-	-	-
Currency and interest rate swap purchases and sales	850,514	(140,256)	807,874	(98,991)
Total derivative assets/(liabilities)	**7,801,684**	**(4,129,493)**	**8,428,812**	**(4,698,838)**

The notional amounts of derivative transactions are explained in detail in Note 18.

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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

As at 30 June 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 30 June 2017			Prior Period 31 December 2016		
	Notional Amount	**Assets**	**Liabilities**	**Notional Amount**	**Assets**	**Liabilities**
Interest Rate and Cross Currency Swaps						
-TL	2,497,225	758,340	-	2,497,225	682,966	-
-FC	29,607,104	92,174	140,256	20,894,823	124,908	98,991
Total	**32,104,329**	**850,514**	**140,256**	**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 born of EURO 320 million which represents share premiums and paid-in-capital of Akbank AG, one of its subsidiaries, with EUR0 320 million of syndication loans used by the Group have been classified as "hedge instruments".

2. Explanations on Fair Value Hedges:

Current Period - 30 June 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	(132,841)	127,617	(5,224)
Interest Rate Swap	Fixed interest rate Lease Receivables	Interest rate risk	194	(200)	(6)
Cross-currency swap	Fixed interest rate FC Issued	Interest rate and currency risk	675	(674)	1
Cross-currency swap	Fixed interest rate TL Mortgage Loans Portfolio.	Interest rate and currency risk	776,586	(768,793)	7,793

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 8 - 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 "Gains / (Losses) on Derivative Financial Transactions" and "Gains/ (Losses) on Foreign Exchange Transactions" since the beginning of hedge accounting

As at 30 June 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 30 June 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 16,285 (31 December 2016: TL 12,845).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

3. Explanation on Cash Flow Hedge

Current Period - 30 June 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	56,211	-	(43,259)	(7,675)	-

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 30 June 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 30 June 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 (31,348) (31 December 2016: TL (43,790)).

The notional amounts of derivative transactions are explained in detail in Note 18.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

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

	30 June 2017	31 December 2016
Consumer loans	**30,123,126**	**29,431,667**
- Mortgage	13,740,819	13,569,841
- General purpose	16,068,321	15,483,543
- Automobile	313,986	378,283
Credit cards	**12,932,120**	**12,819,216**
- Retail	10,687,784	10,660,590
- Corporate	2,244,336	2,158,626
Corporate, commercial and small business loans	**152,185,267**	**141,430,811**
- Export financing loans	9,369,067	7,016,252
- Loans to financial institutions	10,556,729	7,133,246
- Leasing receivables	5,437,079	4,943,431
- Project finance loans	31,233,797	26,431,817
- Commercial installment loans	17,247,043	8,535,009
- Other	78,341,552	87,371,056
Performing loans	**195,240,513**	**183,681,694**
Impaired loans	4,103,592	4,420,613
Total loans and advances to customers	**199,344,105**	**188,102,307**
Provision for impairment	(6,860,476)	(7,078,219)
Net loans and advances to customers	**192,483,629**	**181,024,088**

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

	30 June 2017	31 December 2016
Gross investment in finance leases	6,468,723	5,951,223
Less: Unearned finance income	(880,832)	854,370
Total investment in finance leases	5,587,891	5,096,853
Provision for impairment	(138,731)	(113,614)
Net investment in finance leases	**5,449,160**	**4,983,239**

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

	30 June 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	1,580,755	1,456,434	-	-
2018	1,539,616	1,248,715	1,990,387	1,728,439
2019	1,187,036	990,262	1,242,683	1,018,701
2020(*)	2,161,316	1,892,480	932,451	780,873
Total	**6,468,723**	**5,587,891**	**5,951,223**	**5,096,853**

(*) Balances include the year 2020 and thereafter.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

The details of the loans are as follows:

	30 June 2017			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Neither past due nor impaired	139,806,025	42,303,053	5,352,333	187,461,411
Past due and not individually impaired (*)	6,942,163	752,193	84,747	7,779,103
Individually impaired	1,705,374	2,247,406	150,811	4,103,591
Total gross	**148,453,562**	**45,302,652**	**5,587,891**	**199,344,105**
Less: allowance for individually impaired loans	(1,274,026)	(2,247,406)	(91,988)	(3,613,420)
Less: allowance for collectively impaired loans	(2,539,326)	(660,987)	(46,743)	(3,247,056)
Total Allowance for impairment	**(3,813,352)**	**(2,908,393)**	**(138,731)**	**(6,860,476)**
Total Net	**144,640,210**	**42,394,259**	**5,449,160**	**192,483,629**

(*) Includes cash loan exposure with a principal balance of USD 1.5 billion as at 30 June 2017 and 31 December 2016 related with the acquisition finance of a telecommunication company within a syndicate formed by various domestic and foreign banks, where the financing structure includes acquired company's shares pledged as collateral. Negotiations on restructuring of the loan have started among the telecommunication company's shareholders, creditor banks and related public authorities, which may also include a change in the shareholder structure of the Company.

Provisions for all loan exposures shown in the tables for the past due but not individually impaired are included in allowance for collectively impaired loans as of 30 June 2017 and 31 December 2016.

	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**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements in the provision for loan losses are as follows:

	30 June 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	451,232	434,516	39,685	925,433
Collections	(120,293)	(292,165)	(1,860)	(414,318)
Write-offs(*)	(179,868)	(536,282)	(12,708)	(728,858)
30 June 2017	**3,813,352**	**2,908,393**	**138,731**	**6,860,476**

(*) The Parent Bank has sold non-performing loan portfolio of TL 709 million, for which 100% provision was provided, for an amount of TL 39 million to 4 companies, Istanbul Varlık Yönetimi A.Ş., Efes Varlık Yönetim A.Ş. , Hayat Varlık Yönetimi A.Ş. and Final Varlık Yönetimi A.Ş. Specific provision previously allocated for this amount is, included in "Write-off" section in above table.

	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**

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

NOTE 10 - INVESTMENT SECURITIES

(a) Securities available-for-sale:

	30 June 2017	**31 December 2016**
Debt securities		
- Government bonds	19,312,596	17,912,731
- Eurobonds	12,229,051	11,328,132
- Treasury bills	2,336	-
- Government bonds denominated in foreign currency	-	-
- Other bonds	6,703,846	5,286,609
Equity securities		
- Listed	-	-
- Unlisted	82,419	71,264
- Mutual Funds	249,363	212,244
Total securities available-for-sale	**38,579,611**	**34,810,980**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 10 - INVESTMENT SECURITIES (Continued)

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

	30 June 2017	31 December 2016
Debt securities		
- Government bonds	13,346,780	13,091,240
- Other government debt securities	2,537,936	2,370,665
- Other Marketable Securities	2,376,740	2,514,965
Total securities held-to-maturity	**18,261,456**	**17,976,870**

As at 30 June 2017, investment securities subject to repurchase agreements amount to TL 25,405,480 (31 December 2016: TL 27,019,037); and those given as collateral/blocked amount to TL 5,123,570 (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.

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

The Bank has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with "TAS 16 Plant and Equipment" on 31 January 2017. The revaluation difference amounting to TL 2.301.948 arising from the valuations made by the appraisal firms authorized by CMB and BRSA is accounted in investment properties revaluation differences line under the shareholders' equity.

The amount of tangible and intangible assets purchased during the six months period ended 30 June 2017 amounts to TL 97,424 (30 June 2016: TL 64,207).

The net amount of tangible and intangible assets sold during the six months period ended 30 June 2017 amounts to TL 17,423 (30 June 2016: TL 159,185).

NOTE 12 – DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The breakdown of deposits and obligations under repurchase agreements according to type and maturity is as follows:

	30 June 2017			31 December 2016		
	Demand	Time	Total	Demand	Time	Total
Saving deposits	16,258,720	82,105,144	98,363,864	14,430,486	76,583,302	91,013,788
Commercial deposits	14,992,474	54,738,549	69,731,023	14,439,994	55,450,574	69,890,568
Funds deposited under repurchase agreements	-	23,338,526	23,338,526	-	26,042,669	26,042,669
Bank deposits	930,950	12,760,534	13,691,484	972,501	6,229,124	7,201,625
Other	1,414,474	4,843,634	6,258,108	566,747	5,295,076	5,861,823
Total	**33,596,618**	**177,786,387**	**211,383,005**	**30,409,728**	**169,600,745**	**200,010,473**

NOTE 13 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED AND DEBT SECURITIES IN ISSUE

	30 June 2017	31 December 2016
Interbank money market deposits	**1,473,284**	**1,277,373**
Domestic banks		
- TL	313,341	294,726
- Foreign currency	617,023	472,133
Foreign institutions	19,402,995	19,121,117
Funds borrowed	**20,333,359**	**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 30 June 2017, Akbank has three outstanding syndicated loan facilities.

The first outstanding facility with 1 and 3 year tenor tranches signed on 18 August 2016 raised EUR 787.8 million and USD 327 million with Libor+125 bps and Euribor+115 bps for 1 year, and Euribor+ 285 bps for 3 year tenor.

The 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.

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

Debt securities in issue

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

The balances amounting to USD 6,161,508 thousand and EUR 282,901 thousand consist of securitization deals and other currencies TL 158,189 thousand 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:

	30 June 2017				
	USD (000)	**USD (TL eqv.)**	**EUR (000)**	**EUR (TL eqv.)**	**Other (TL eqv.)**
2017 (*)	691,472	2,420,151	37,159	148,390	1,109
2018	1,195,898	4,185,643	75,081	299,828	70,231
2019	447,404	1,565,914	93,324	372,680	86,850
2020	949,794	3,324,279	45,810	182,938	-
2021	465,531	1,629,359	23,068	92,120	-
2022	801,253	2,804,386	328	1,310	-
2023	459,374	1,607,809	315	1,258	-
2024	396,475	1,387,663	303	1,210	-
2025	410,038	1,435,133	291	1,162	-
2026	58,354	204,239	280	1,118	-
2027	281,153	984,036	269	1,074	-
2028	4,762	16,667	258	1,030	-
2029	-	-	6,415	25,618	-
Total	**6,161,508**	**21,565,279**	**282,901**	**1,129,736**	**158,190**

NOTE 13 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED AND DEBT SECURITIES IN ISSUE (Continued)

	31 December 2016				
	USD (000)	**USD (TL eqv.)**	**EUR (000)**	**EUR (TL eqv.)**	**Other (TL eqv.)**
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 30 June 2017, the outstanding TL denominated bonds with the maturity of up to 3 months are TL 716,135, with the maturity of 4 months are TL 1,774,165, with the maturity of over 5 years are TL 1,337,425.

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 14 - EMPLOYMENT BENEFIT OBLIGATIONS

	30 June 2017	31 December 2016
Balance sheet obligations for:		
- Reserve for employment termination benefits	146,559	146,104
- Accrual for unused vacation	87,178	81,978
- Post-employment benefits (pension and medical)	-	-
Total	**233,737**	**228,082**

There are no amounts recognized in the balance sheet for post-employment benefits since fair value of the Fund's plan assets compensate defined benefit obligations as of 30 June 2017.

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

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.

NOTE 14 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

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.

With respect to that, according to the technical balance sheet report as at 30 June 2017 prepared considering the related articles of the New Law regarding the transferrable benefit obligations for the non-transferrable social benefits and payments which are included in the articles of association, the Fund has no technical or actual deficit which requires a provision. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank's financial statements.

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

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

(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 4,732.48 starting from the period 1 July 2017 (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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 15 - 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 30 June 2017 and 31 December 2016, the issued and fully paid-in share capital held is as follows:

	Unaudited 30 June 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	4,000,000	100	4,000,000
Adjustment to share capital	-	1,529,151	-	1,529,151
Total paid-in share capital		**5,529,151**		**5,529,151**

For the interim period ending 30 June 2017, the Parent Bank has paid dividend in cash with respect to 2016 net distributable profit after the transfer of first and legal reserves amounting to TL 900,000 (TL 0.0023 per share).

NOTE 16 - NET FEE AND COMMISSION INCOME

	1 January-30 June 2017	1 January-30 June 2016
Fee and commission income on:		
Credit cards	844,971	762,745
Retail and commercial banking operations	279,319	296,967
Mutual fund management fee	43,133	32,968
Insurance intermediary	137,751	110,166
Non-cash loans	126,723	98,359
Money transfers	166,736	103,047
Brokerage commission	42,598	54,064
Other	113,167	84,965
	1,754,398	**1,543,281**
Fee and commission expense on:		
Credit cards	(253,531)	(205,090)
Other	(69,841)	(44,172)
	(323,372)	**(249,262)**
Net fee and commission income	**1,431,026**	**1,294,019**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 17 - OPERATING EXPENSES

	1 January- 30 June 2017	1 January- 30 June 2016
Employee costs	943,220	873,712
Credit card and banking services	254,769	170,791
Legal expenses	61,271	70,390
Depreciation charges of property, plant and equipment (Note 11)	75,680	65,016
Marketing and advertisement expenses	59,212	54,927
Computer maintenance and support expenses	153,194	122,795
Communication expenses	74,961	69,290
Saving deposits insurance fund	102,806	86,377
Sundry taxes and duties	91,904	94,168
Heating, lighting and water expenses	22,816	23,455
Amortization of other intangible assets	58,093	40,485
Repair and maintenance expenses	13,477	11,413
Stationery expenses	11,878	10,180
Operating lease expenses	98,677	89,406
Other (*)	323,380	344,097
Total	**2,345,338**	**2,126,502**

(*) 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 18,602 (30 June 2016: TL 62,669).

NOTE 18 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

(a) Commitments under derivative instruments:

The breakdown of notional amounts of derivative transactions at 30 June 2017 and 31 December 2016 is as follows:

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 18 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

	30 June 2017					
	USD	**EUR**	**GBP**	**Other**	**TL**	**Total**
Derivatives held for trading:						
Currency forward transactions	3,735,091	2,575,297	71,184	10,828	5,475,387	11,867,787
Swap transactions	82,556,708	32,074,605	1,966,325	988,493	41,012,775	158,598,906
- Currency rate swaps	52,746,365	23,609,487	1,966,325	988,493	39,687,235	118,997,905
- Interest rate swaps	29,810,343	8,465,118	-	-	1,325,540	39,601,001
Spot transactions	4,963,258	965,678	5,220	48,676	1,230,996	7,213,828
Option transactions	34,269,057	5,687,973	32,566	70,690	7,669,258	47,729,544
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	5,284,533	502,610	-	6,721	-	5,793,864
Derivatives held for hedging:						
Swap transactions	16,419,263	-	-	9,045	-	16,428,308
- Interest rate swaps	13,169,798	-	-	-	-	13,169,798
- Currency rate swaps	3,249,465	-	-	9,045	-	3,258,510
Total purchases	**147,227,910**	**41,806,163**	**2,075,295**	**1,134,453**	**55,388,416**	**247,632,237**
Derivatives held for trading:						
Currency forward transactions	4,968,941	2,425,750	12,021	17,848	4,297,474	11,722,034
Swap transactions	69,503,917	29,850,806	76,326	660,352	53,656,673	153,748,074
- Currency rate swaps	39,693,574	21,385,688	76,326	660,352	52,331,133	114,147,073
- Interest rate swaps	29,810,343	8,465,118	-	-	1,325,540	39,601,001
Spot transactions	2,187,373	984,435	14,963	4,968	4,231,168	7,422,907
Option transactions	33,970,073	5,515,216	37,559	70,691	8,282,036	47,875,575
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	3,912,532	402,776	-	3,359,427	77,765	7,752,500
Derivatives held for hedging:						
Swap transactions	13,169,798	8,999	-	-	2,497,225	15,676,022
- Interest rate swaps	13,169,798	-	-	-	-	13,169,798
- Currency rate swaps	-	8,999	-	-	2,497,225	2,506,224
Total sales	**127,712,634**	**39,187,982**	**140,869**	**4,113,286**	**73,042,341**	**244,197,112**
Off-balance sheet net notional position	**19,515,276**	**2,618,181**	**1,934,426**	**(2,978,833)**	**(17,653,925)**	**3,435,125**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 18 - 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.

(b) 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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 18 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

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.

The following table shows the outstanding credit related commitments of the Group at 30 June 2017 and 31 December 2016:

	30 June 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	3,906,492	12,134,578	16,041,070	2,509,799	11,211,636	13,721,435
- Foreign currency	1,526,090	13,243,460	14,769,550	1,442,701	11,987,656	13,430,357
Acceptance credits						
- Turkish lira	311	-	311	-	-	-
- Foreign currency	3,438,964	322,615	3,761,579	3,569,372	13,857	3,583,229
Letter of credit						
- Turkish lira	5,491	-	5,491	260	-	260
- Foreign currency	3,512,733	2,525,969	6,038,702	2,358,258	2,874,258	5,232,516
Other guarantees						
- Turkish lira	26,673	2,449,271	2,475,944	36,149	2,218,608	2,254,757
- Foreign currency	2,037,909	454,001	2,491,910	1,707,973	416,609	2,124,582
	14,454,663	**31,129,894**	**45,584,557**	**11,624,512**	**28,722,624**	**40,347,136**

NOTE 19 - MUTUAL FUNDS

As of 30 June 2017, the Group is the founder of 45 mutual funds (31 December 2016: 44 mutual funds) with an unaudited total fund value of TL 4,624,026 (31 December 2016: TL 3,916,212). The shares of the mutual funds established in accordance with the Capital Markets Board legislation are kept dematerialized by Istanbul Settlement and Custody Bank, Inc.

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NOTE 20 - RELATED PARTY TRANSACTIONS

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

(a) Balances with related parties:

	30 June 2017	31 December 2016
Loans and receivables, net	4,638,076	4,591,797
Finance lease receivables	75,226	88,173
Total Assets	**4,713,302**	**4,679,970**
Deposits and obligations under repurchase agreements (Note 12)	10,776,613	9,736,546
Total Liabilities	**10,776,613**	**9,736,546**
Credit related commitments	733,364	900,600
Commitment under derivative instruments (*)	13,174,507	10,110,973
Total Commitments and contingent liabilities	**13,907,871**	**11,011,573**

Transactions with related parties:

	30 June 2017	30 June 2016
Total interest income	236,319	160,525
Total interest expense	424,659	394,339
Trading (losses)/gains	11,061	4,677

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

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

	30 June 2017	31 December 2016
Deposits	894,885	858,961
Total	**894,885**	**858,961**

For the period ended 30 June 2017, benefits provided to the senior management and Board of Directors of the Group amounted to TL 28,487 (30 June 2016: TL 23,683).

NOTE 21 - SEGMENT REPORTING

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

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

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

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

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 21 - SEGMENT REPORTING (Continued)

Information on business segments as of 30 June 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:

30 June 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	51,473,851	157,275,000	81,908,945	6,338,323	296,996,119
Equity securities					82,419
Unallocated assets					15,890,908
Total assets					**312,969,446**
Segment liabilities	91,303,010	87,483,385	80,196,857	5,519,439	264,502,691
Unallocated liabilities					10,025,491
Equity					38,441,264
Total liabilities and equity					**312,969,446**
Segment information regarding the income statement:					
Segment revenue	2,172,691	3,311,060	450,928	235,562	6,170,241
Segment result	1,002,003	2,464,785	327,690	30,425	3,824,903
Dividend income				2,557	2,557
Income taxes				(787,782)	(787,782)
Profit for the year	**1,002,003**	**2,464,785**	**327,690**	**(754,800)**	**3,039,678**
Other segment items					
Capital expenditure				97,424	97,424
Depreciation and amortization	(10,183)	(8,086)	(59)	(115,445)	(133,773)
Other non-cash expenses	(144,698)	(234,762)	(12,017)	(468,853)	(860,330)

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	1,990,524	2,515,064	432,118	477,516	5,415,223
Segment result	886,497	1,869,671	348,153	19,183	3,123,504
Dividend income				2,599	2,599
Income taxes				(615,861)	(615,861)
Profit for the year	**756,914**	**2,001,748**	**345,657**	**(594,079)**	**(2,510,242)**
Other segment items					
Capital expenditure	-	-	-	52,150	52,150
Depreciation and amortization	(15,491)	(11,242)	(29)	(79,969)	(106,731)
Other non-cash expenses	(279,529)	(336,267)	(192,322)	(405,965)	(1,214,083)

(*) 30 June 2016 amounts are used for income statement accounts.

NOTE 22 - SUBSEQUENT EVENTS

None.

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