Yapı ve Kredi Bankası A.Ş.

Interim condensed consolidated financial statements at June 30, 2017 together with independent auditor's review report

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

Introduction

1. We have reviewed the accompanying interim condensed consolidated statement of financial position of Yapı ve Kredi Bankası A.Ş., and its subsidiaries (together referred to as the "Group") as of 30 June 2017 and the related interim condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the 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.

Conclusion

3. Based on our review, 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

4. The financial statements of the Group as of 31 December 2016 were audited by another audit firm whose audit report dated 7 March 2017 expressed an unqualified opinion. The interim financial statements of the Group as of 30 June 2016 were reviewed by the same audit firm whose report dated 23 August 2016 stated that nothing has come to their attention that would cause them to conclude that the interim financial statements were not prepared in all material respects, in accordance with IAS 34.

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

Halûk Yalçın, SMMM
Partner

Istanbul, 18 August 2017

Yapı ve Kredi Bankası A.Ş.

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Interim consolidated statement of financial position at June 30, 2017 and December 31, 2016
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2017	December 31, 2016
Assets			
Cash and balances with central banks	5	34,838,252	33,083,295
Loans and advances to banks		5,074,303	3,449,218
Financial assets held for trading			
- Trading securities	6	63,989	43,365
- Derivative financial instruments	7	2,139,070	2,986,773
Loans and advances to customers	8	198,985,081	188,980,851
Hedging derivatives	7	1,026,505	1,209,712
Investment securities			
- Available-for-sale	9	15,820,858	12,948,479
- Available-for-sale pledged as collateral	21	4,642,959	5,268,827
- Held-to-maturity	9	3,008,647	4,628,032
- Held-to-maturity pledged as collateral	21	8,708,420	6,960,858
Investment in associates and joint ventures accounted for using the equity method		724,450	682,728
Goodwill		1,023,528	1,023,528
Other intangible assets		612,865	587,422
Property and equipment		1,239,263	1,267,706
Deferred income tax assets	15	360,212	94,246
Other assets		5,795,308	5,317,893
Total assets		**284,063,710**	**268,532,933**
Liabilities			
Deposits from banks	10	11,328,742	13,811,243
Customer deposits	11	157,758,441	149,550,753
Funds borrowed	12	40,366,951	37,167,753
Debt securities in issue	13	21,653,181	19,308,899
Financial liabilities designated at fair value	14	4,091,397	3,938,694
Derivative financial instruments	7	1,879,166	2,578,679
Current income taxes payable		337,890	33,792
Deferred income tax liabilities	15	10,039	7,892
Hedging derivatives	7	173,156	89,296
Other provisions	16	917,633	765,014
Retirement benefit obligations		702,729	697,516
Other liabilities		15,637,759	13,663,912
Total liabilities		**254,857,084**	**241,613,443**
Equity			
Share capital and share premium		4,822,259	4,822,259
Other reserves	17	1,697,669	1,195,533
Retained earnings	17	22,686,198	20,901,197
Equity attributable to equity holders of the parent		**29,206,126**	**26,918,989**
Equity attributable to non-controlling interests		500	501
Total equity		**29,206,626**	**26,919,490**
Total liabilities and equity		**284,063,710**	**268,532,933**

The accompanying notes set out on pages 6 to 43 form an integral part of these consolidated financial statements.

Interim consolidated statement of income for the six-month period ended June 30, 2017 and 2016
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2017	June 30, 2016
Continuing operations			
Interest income		11,511,190	9,678,026
Interest expense		(7,320,560)	(5,981,228)
Net interest income		**4,190,630**	**3,696,798**
Fee and commission income		2,081,557	1,870,676
Fee and commission expense		(707,331)	(609,924)
Net fee and commission income		**1,374,226**	**1,260,752**
Foreign exchange gains, net		130,129	119,549
Net trading, hedging and fair value income	18	49,194	273,697
Gains from investment securities, net		46,277	52,495
Other operating income		51,437	49,694
Operating income		**5,841,893**	**5,452,985**
Impairment losses on loans, investment securities and credit related commitments, net	8-16	(1,109,887)	(947,943)
Provision for retirement benefit obligations, net		(24,911)	(24,189)
Other provisions	16	(151,911)	(148,385)
Other operating expenses	19	(2,349,145)	(2,188,329)
Operating profit		**2,206,039**	**2,144,139**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method		47,095	33,262
Profit before income tax		**2,253,134**	**2,177,401**
Income tax expense	15	(443,223)	(427,379)
Profit for the year		**1,809,911**	**1,750,022**
Attributable to:			
Equity holders of the parent		1,809,872	1,749,989
Non-controlling interest		39	33
		1,809,911	**1,750,022**
Basic and diluted earnings per share attributable to the equity holders of the Parent (expressed in TL per thousand share)	20	4.16	4.03

The accompanying notes set out on pages 6 to 43 form an integral part of these consolidated financial statements.

Interim consolidated statement of comprehensive income for the six-month period ended June 30, 2017 and 2016
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2017	June 30, 2016
Profit for the period		**1,809,911**	**1,750,022**
Items that are or may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		154,770	27,858
Net gains / (losses) on available-for-sale financial assets			
- Unrealized net gains / (losses) arising during the year, before tax		612,446	710,310
- Net amount reclassified to the statement of income		(36,569)	(260,498)
Net investment hedges			
- Net gains / (losses) arising on hedges recognized in other comprehensive income, before tax		(114,714)	(9,090)
Cash flow hedges			
- Net gains / (losses) arising on hedges recognized in other comprehensive income, before tax		(800)	(848,687)
- Net amount reclassified to the statement of income		(56,029)	(10,278)
Income tax effect		**(81,839)**	**59,669**
		477,265	**(330,716)**
Items that will never be reclassified to profit or loss			
Re-measurement (losses) / gains on defined benefit liability		-	(60)
Income tax effect		-	14
		-	**(46)**
Other comprehensive income for the year, net of tax		**477,265**	**(330,762)**
Total comprehensive income for the year		**2,287,176**	**1,419,260**
Total comprehensive income attributable to:			
Equity holders of the parent (total)		2,287,137	1,419,227
Non-controlling interest (total)		39	33

The accompanying notes set out on pages 6 to 43 form an integral part of these consolidated financial statements.

Interim consolidated statement of changes in equity for the six-month period ended June 30, 2017 and 2016

(Amounts expressed in thousands of TL unless otherwise indicated.)

	Attributable to equity holders of the parent						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at January 1, 2016	**4,286,580**	**535,679**	**999,508**	**17,749,148**	**23,570,915**	**470**	**23,571,385**
Total comprehensive income for the year	-	-	(330,762)	1,749,989	1,419,227	33	1,419,260
Dividends paid	-	-	-	-	-	(37)	(37)
Transfer to statutory reserves and to retained earnings	-	-	93,027	(93,027)	-	-	-
Balance at June 30, 2016	**4,286,580**	**535,679**	**761,773**	**19,406,110**	**24,990,142**	**466**	**24,990,608**
Balance at January 1, 2017	**4,286,580**	**535,679**	**1,195,533**	**20,901,197**	**26,918,989**	**501**	**26,919,490**
Total comprehensive income for the year	-	-	477,265	1,809,872	2,287,137	39	2,287,176
Dividends paid	-	-	-	-	-	(40)	(40)
Transfer to statutory reserves and to retained earnings	-	-	24,871	(24,871)	-	-	-
Balance at June 30, 2017	**4,286,580**	**535,679**	**1,697,669**	**22,686,198**	**29,206,126**	**500**	**29,206,626**

The accompanying notes set out on pages 6 to 43 form an integral part of these consolidated financial statements.

(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2017	June 30, 2016
Cash flows from operating activities			
Net profit		1,809,911	1,750,022
Adjustments for:			
Unrealized (gain) / loss on financial assets held for trading, net		(188)	(187)
Allowances for losses on loans, investment securities and credit related commitments	8,16	1,109,887	947,943
Measurement of derivative financial instruments at fair value	7	415,258	740,602
Share of profit of associates and joint ventures		(47,095)	(33,262)
Amortization of other intangible assets	19	65,017	60,479
Depreciation of property and equipment	19	100,945	104,491
Provision for current and deferred income taxes		443,223	427,379
Other provisions	16	151,911	148,385
Provision / (reversal) for retirement benefit obligations		24,911	24,189
Other liabilities		(373,449)	40,906
Unearned commission income		9,251	36,593
Dividend income		(10,278)	(6,054)
Interest income, net		(4,190,630)	(3,696,798)
Interest paid		(7,312,118)	(5,891,427)
Interest received		11,888,052	9,038,146
Effect of exchange rates on financing activities		489,488	3,112,662
Others, net		345,832	55,362
Cash flows from operating profits before changes in operating assets and liabilities		**4,919,928**	**6,859,431**
Changes in operating assets and liabilities:			
Net decrease / (increase) in cash balances with central banks		(1,757,474)	(1,839,637)
Net decrease / (increase) in loans and advances to banks		280,629	40,357
Net decrease / (increase) in trading securities		(20,436)	(55,105)
Net decrease / (increase) in loans and advances to customers		(12,549,367)	(9,860,085)
Net (increase) / decrease in other assets		(760,203)	(1,105,934)
Net increase / (decrease) in deposits from banks		(2,491,318)	(2,366,252)
Net (decrease) / increase in customer deposits		8,232,895	8,180,439
Net increase / (decrease) in other liabilities and provisions		2,673,578	565,281
Income taxes paid		(484,956)	(463,314)
Net cash from / (used in) operating activities		**(1,956,724)**	**(44,819)**
Cash flows from investing activities			
Purchase of property and equipment		(179,436)	(216,128)
Net book value of property and equipment disposed		29,749	48,374
Purchase of held-to-maturity securities		(209,429)	(495,841)
Redemption or sale of held-to-maturity securities		151,904	74,690
Purchase of available-for-sale securities		(5,268,203)	(9,220,718)
Sale or redemption of available-for-sale securities		4,020,896	11,830,143
Dividends received		10,278	6,054
Net (used in) investing activities		**(1,444,241)**	**2,026,574**
Cash flows from financing activities			
Repayments of borrowed funds and debt securities		(9,437,552)	(8,070,675)
Proceeds from borrowed funds and debt securities		14,254,134	6,627,848
Dividend paid		(40)	(37)
Net cash from / (used in) financing activities		**4,816,542**	**(1,442,864)**
Net increase / (decrease) in cash and cash equivalents		**1,415,577**	**538,891**
Effects of foreign exchange rate changes on cash and cash equivalents		425,701	7,015
Cash and cash equivalents at beginning of period		16,161,962	10,236,565
Cash and cash equivalents at end of period		**18,003,240**	**10,782,471**

The accompanying notes set out on pages 6 to 43 form an integral part of these consolidated financial statements.

1. General information

Yapı ve Kredi Bankası A.Ş. ("YKB", the "Parent Bank" or the "Bank" or together with its subsidiaries it is referred to as "the Group" in these consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No. 3/6710 on September 9, 1944 as a private capital commercial bank, authorized to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its incorporation. The Group provides retail, corporate and private banking, credit cards, leasing, factoring and investment management services. The Group has operations in Turkey, the Netherlands, Azerbaijan, Russia and Malta.

The Group's controlling parent with 81.80% of shareholding is Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit Group ("UCG") and Koç Group. KFS was established as a financial holding company on March 16, 2001 to combine Koç Group financial services companies under one organization. As of October 22, 2002, Koç Group established a strategic partnership with UCG over KFS.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of June 30, 2017, 18.20% of the shares of the Bank are publicly traded (December 31, 2016 – 18.20%). The Bank's publicly traded shares are traded on ISE and the representatives of these shares. Global Depository Receipts are quoted on the London Stock Exchange.

At June 30, 2017, the Group has 19,391 employees (December 31, 2016: 19,419 employees). The Bank has 907 branches operating in Turkey and 1 branch in overseas (December 2016: 935 branches operating in Turkey, 1 branch in overseas) and 18,406 employees (December 31, 2016: 18,366 employees).

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, İstanbul, Turkey.

These interim condensed consolidated financial statements for the year ended June 30, 2017 have been approved for issue by the Board of Directors on August 18, 2017.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These interim condensed consolidated financial statements for the period ended June 30, 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 Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2016.

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

2. Summary of significant accounting policies (continued)

Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements as at June 30, 2017 are consistent with those followed in the preparation of the consolidated financial statements of the prior year.

Standards issued but not yet effective and not early adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

IFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

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

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

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.

3. Critical accounting estimates and judgements in applying accounting policies

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

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

4. Financial risk management

The Group's risk management functions are independent from the commercial operations along with committees such as Executive Committee and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring the Group's fulfilment of requirements stipulated by the Banking Law in a manner consistent with shareholders' risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) developing and validating the credit rating/scoring models and (6) ensuring compliance with Basel requirements and Banking Law.

A. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises mainly from commercial and consumer loans and advances, credit cards and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives, reverse repos and settlement balances with market counterparties.

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enter into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

The Group manages credit risk through the following implementations:

(a) establishment of credit risk policy involving credit risk strategies, implementation of credit policy guidelines, definition of the optimum composition of the overall loan portfolio, credit risk budget and identification of risk positions within legal and group wide limitations;

(b) development, enhancement and maintenance of rating and scoring models (probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD")) models for all segments for measuring, monitoring and controlling credit risk;

(c) monitoring and measuring the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area etc.), presentation of the strategic credit risk related reports to senior management, including evolution of loan provisioning and comparison with peer banks;

(d) obtaining continuity of operative methodologies (e.g. borrower evaluation, loan and collateral classifications, monitoring and recovery principles) for credit processes (underwriting, monitoring and work-out) and related tools (including testing of new functionalities);

4. Financial risk management (continued)

(e) evaluation of new credit products, changes to existing ones and monitoring them to ensure the risk profile is compatible with the risk appetite and reputational risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, work-out procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);

(f) preparation of credit risk budget in line with predefined lending targets;

(g) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of the loan portfolio for maintaining asset quality;

(h) execution of provisioning methodologies in line with BRSA and IFRS principles.

Credit policies reflect general credit risk principles to be followed throughout the Group's lending activities and the related strategies and goals, as well as shareholders' risk appetites. The credit policy guideline is prepared by the Group's credit risk management department and approved by the Board of Directors.

B. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. As a commercial group, the focus is serving the financial needs of the customers, thereby generating exposure to interest rate, and foreign exchange risk.

The Market Risk Policy of the Group identifies risk-management guidelines. According to the Market Risk Policy, market risk is managed depending on the treatment of the banking book and trading book. The banking book consists of all assets and liabilities arising from commercial activities and is sensitive to interest rate and foreign exchange movements. The trading book, on the other hand, includes the positions held for trading, client servicing purposes or for market making operations.

The Group trades mainly in FX and securities, within predefined limits. Risk limits are set on intra-day and end of day positions as well as Value-at-Risk, monitored on a daily basis.

The banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is required to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilized to mitigate the banking book interest rate risk resulting from repricing and maturity mismatches. Besides Economic Value Sensitivity, an overall Value at Risk, covering all statement of financial position items and Basis Point Value ("BPV") methods are used to measure the structural interest rate risk.

As part of the management of market risk, the Group undertakes various hedging strategies with hedge accounting applied (Note 8). The Group also uses derivative financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group's risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

i) Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

The limits are set by the Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

The table below summarizes the Group's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchased and sold foreign currency derivative financial instruments.

June 30, 2017

	USD	EUR	Other	Foreign currency Total
Assets				
Cash and balances with central banks	16,786,232	8,716,060	5,176,452	30,678,744
Loans and advances to banks	1,271,995	1,694,084	135,305	3,101,384
Financial assets held for trading				
- Trading securities	17,370	436	-	17,806
- Derivative financial instruments	304,419	135,265	79	439,763
Loans and advances to customers	43,021,346	38,898,446	1,497,164	83,416,956
Hedging derivatives	55,981	50,632	-	106,613
Investment securities				
- Available-for-sale	2,170,724	638,592	22,310	2,831,626
- Held-to-maturity	5,836,039	991,230	1	6,827,270
Investment in associates and joint ventures	-	-	488,066	488,066
Property and equipment	-	2,245	24,063	26,308
Deferred income tax assets	-	-	-	-
Other assets	371,948	2,005,785	263,292	2,641,025
Total assets	**69,836,054**	**53,132,775**	**7,606,732**	**130,575,561**
Liabilities				
Deposits from banks	3,498,369	1,626,452	119,295	5,244,116
Customer deposits	53,380,399	23,321,584	2,667,411	79,369,394
Funds borrowed	15,253,176	19,108,641	316,259	34,678,076
Debt securities in issue	16,672,699	434,169	149,382	17,256,250
Financial liabilities designated at fair value	4,091,397	-	-	4,091,397
Derivative financial instruments	104,175	111,343	53,758	269,276
Current income taxes payable	-	7,930	1,364	9,294
Deferred income tax liabilities	-	188	9,851	10,039
Hedging derivatives	13,978	11,766	1	25,745
Other provisions	-	224	49	273
Retirement benefit obligations	-	-	-	-
Other liabilities	984,044	1,503,651	35,896	2,523,591
Total liabilities	**93,998,237**	**46,125,948**	**3,353,266**	**143,477,451**
Net balance sheet position	**(24,162,183)**	**7,006,827**	**4,253,466**	**(12,901,890)**
Off-balance sheet derivative instruments net notional position	**24,112,699**	**(6,768,819)**	**(3,454,612)**	**13,889,268**
Net foreign currency position	**(49,484)**	**238,008**	**798,854**	**987,378**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2016

	USD	EUR	Other	Foreign currency Total
Assets				
Cash and balances with central banks	12,058,587	6,964,891	5,008,378	24,031,856
Loans and advances to banks	962,258	2,339,578	103,993	3,405,829
Financial assets held for trading				
- Trading securities	16,400	1,425	-	17,825
- Derivative financial instruments	277,751	115,196	62	393,009
Loans and advances to customers	45,618,318	37,564,363	1,444,578	84,627,259
Hedging derivatives	88,593	24,511	-	113,104
Investment securities				
- Available-for-sale	2,251,867	700,325	21,317	2,973,509
- Held-to-maturity	5,889,209	868,012	2	6,757,223
Investment in associates and joint ventures	-	-	437,143	437,143
Property and equipment	-	2,363	32,328	34,691
Deferred income tax assets	-	-	-	-
Other assets	1,233,193	1,530,339	220,750	2,984,282
Total assets	**68,396,176**	**50,111,003**	**7,268,551**	**125,775,730**
Liabilities				
Deposits from banks	3,044,682	1,388,883	60,406	4,493,971
Customer deposits	43,731,650	24,214,215	2,389,788	70,335,653
Funds borrowed	13,537,887	18,958,930	372,278	32,869,095
Debt securities in issue	14,526,320	487,387	304,310	15,318,017
Financial liabilities designated at fair value	3,938,694	-	-	3,938,694
Derivative financial instruments	209,704	153,519	26,521	389,744
Current income taxes payable	-	4,188	-	4,188
Deferred income tax liabilities	-	263	7,629	7,892
Hedging derivatives	4,200	18,832	1	23,033
Other provisions	-	208	91	299
Retirement benefit obligations	-	-	-	-
Other liabilities	863,587	1,614,500	7,612	2,485,699
Total liabilities	**79,856,724**	**46,840,925**	**3,168,636**	**129,866,285**
Net balance sheet position	**(11,460,548)**	**3,270,078**	**4,099,915**	**(4,090,555)**
Off-balance sheet derivative instruments net notional position	**11,314,635**	**(3,142,494)**	**(3,490,796)**	**4,681,345**
Net foreign currency position	**(145,913)**	**127,584**	**609,119**	**590,790**

At June 30, 2017, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 3.5071 = USD 1, and TL 4.0030 = EUR 1 (2016: TL 3.5192 = USD 1, and TL 3.7099 = EUR 1).

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rate risk limits are set in terms of an economic value sensitivity limit and Basis Point Value ("BPV") limit. Economic value sensitivity analysis is performed according to a scenario of 2% shift in FX yield curve and 4% shift in TL yield curve. The resulting profit/loss should not exceed 20% (Sensitivity Limit) of the Bank's Tier 1 + Tier 2 Capital. The BPV limit restricts maximum interest rate risk position by currency and time buckets. BPV is applied for the banking book and represents the sensitivity of the banking book to 1 bp change in interest rates.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

The table below summarizes the Group's exposure to interest rate risk at June 30, 2017 and December 31, 2016. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

June 30, 2017	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	20,065,034	-	-	-	14,773,218	34,838,252
Loans and advances to banks	3,559,141	219,536	-	-	1,295,626	5,074,303
Financial assets held for trading						
- Trading securities	9,129	3,020	3,719	16,432	31,689	63,989
- Derivative financial instruments	1,146,780	304,101	365,983	322,206	-	2,139,070
Hedging derivatives	976,187	1,013	49,305	-	-	1,026,505
Loans and advances to customers	59,486,181	66,499,700	58,558,701	13,540,524	899,975	198,985,081
Investment securities						
- Available-for-sale	7,521,876	6,700,366	4,118,243	1,930,556	192,776	20,463,817
- Held-to-maturity	935,085	1,806,022	1,550,387	7,425,573	-	11,717,067
Investment in associates and joint ventures	-	-	-	-	724,450	724,450
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	612,865	612,865
Property and equipment	-	-	-	-	1,239,263	1,239,263
Deferred income tax assets	-	-	-	-	360,212	360,212
Other assets	-	-	-	-	5,795,308	5,795,308
Total assets	**93,699,413**	**75,533,758**	**64,646,338**	**23,235,291**	**26,948,910**	**284,063,710**
Liabilities						
Deposits from banks	9,315,377	1,673,542	-	-	339,823	11,328,742
Customer deposits	119,838,784	7,098,326	1,007,519	144,016	29,669,796	157,758,441
Funds borrowed	27,756,883	8,470,137	3,399,112	740,819	-	40,366,951
Debt securities in issue	4,858,746	1,605,064	8,071,435	7,117,936	-	21,653,181
Financial liabilities designated at fair value	-	-	-	4,091,397	-	4,091,397
Derivative financial instruments	630,746	432,710	733,286	82,424	-	1,879,166
Current income taxes payable	-	-	-	-	337,890	337,890
Deferred income tax liabilities	-	-	-		10,039	10,039
Hedging derivatives	154,705	1,666	16,785	-	-	173,156
Other provisions	-	-	-	-	917,633	917,633
Retirement benefit obligations	-	-	-	-	702,729	702,729
Other liabilities	3,793	126	1,600	-	15,632,240	15,637,759
Total liabilities	**162,559,034**	**19,281,571**	**13,229,737**	**12,176,592**	**47,610,150**	**254,857,084**
Net interest repricing gap (on balance)	**(68,859,621)**	**56,252,187**	**51,416,601**	**11,058,699**	**(20,661,240)**	**29,206,626**
Off-balance sheet derivative instruments net notional position	33,787,736	(2,691,682)	(23,527,161)	(7,972,698)	-	(403,805)
Net interest repricing gap (net position)	**(35,071,885)**	**53,560,505**	**27,889,440**	**3,086,001**	**(20,661,240)**	**28,802,821**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2016	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	18,716,507	55,603	-	-	14,311,185	33,083,295
Loans and advances to banks	1,909,371	202,417	1,083	-	1,336,347	3,449,218
Financial assets held for trading						
- Trading securities	856	10,914	6,179	18,781	6,635	43,365
- Derivative financial instruments	1,872,312	420,684	423,567	270,210	-	2,986,773
Loans and advances to customers	1,169,122	456	40,134	-	-	1,209,712
Hedging derivatives	62,956,520	55,692,196	44,570,284	21,580,392	4,181,459	188,980,851
Investment securities						
- Available-for-sale	6,504,246	5,798,470	3,475,043	2,236,164	203,383	18,217,306
- Held-to-maturity	879,676	1,505,914	1,645,515	7,557,785	-	11,588,890
Investment in associates and joint ventures	-	-	-	-	682,728	682,728
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	587,422	587,422
Property and equipment	-	-	-	-	1,267,706	1,267,706
Deferred income tax assets	-	-	-	-	94,246	94,246
Other assets	89,480	-	-	-	5,228,413	5,317,893
Total assets	**94,098,090**	**63,686,654**	**50,161,805**	**31,663,332**	**28,923,052**	**268,532,933**
Liabilities						
Deposits from banks	12,501,077	696,516	-	-	613,650	13,811,243
Customer deposits	113,004,146	8,862,812	981,506	133,683	26,568,606	149,550,753
Funds borrowed	24,338,842	10,240,290	1,853,121	735,500	-	37,167,753
Debt securities in issue	7,289,311	6,452,217	5,530,026	37,345	-	19,308,899
Financial liabilities designated at fair value	-	-	-	3,938,694	-	3,938,694
Derivative financial instruments	880,670	589,609	903,948	204,452	-	2,578,679
Current income taxes payable	-	-	-	-	33,792	33,792
Deferred income tax liabilities	-	-	-	-	7,892	7,892
Hedging derivatives	88,157	631	508	-	-	89,296
Other provisions	-	-	-	-	765,014	765,014
Retirement benefit obligations	-	-	-	-	697,516	697,516
Other liabilities	591	7,696	1,112	-	13,654,513	13,663,912
Total liabilities	**158,102,794**	**26,849,771**	**9,270,221**	**5,049,674**	**42,340,983**	**241,613,443**
Net interest repricing gap (on balance)	**(64,004,704)**	**36,836,883**	**40,891,584**	**26,613,658**	**(13,417,931)**	**26,919,490**
Off-balance sheet derivative instruments net notional position	27,267,765	(2,350,770)	(16,392,589)	(8,159,895)	-	364,511
Net interest repricing gap (net position)	**(36,736,939)**	**34,486,113**	**24,498,995**	**18,453,763**	**(13,417,931)**	**27,284,001**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at June 30, 2107 and December 31, 2016 based on yearly contractual rates.

	June 30, 2017			December 31, 2016		
	USD (%)	**EUR (%)**	**TL (%)**	**USD (%)**	**EUR (%)**	**TL (%)**
Assets						
Cash and balances with central banks	1.24	-	7.58	0.49	-	3.31
Loans and advances to banks	1.52	1.51	14.84	0.45	1.36	11.14
Financial assets held for trading	3.89	2.45	11.62	3.69	3.06	9.92
Investment securities						
- Available-for-sale	5.30	4.02	12.89	5.46	4.31	9.59
- Held-to-maturity	5.40	2.79	11.33	5.40	2.97	9.46
Loans and advances to customers	6.09	4.30	13.66	5.90	4.27	13.18
Liabilities						
Deposits from banks	1.60	0.82	12.35	1.62	0.87	10.58
Customer deposits	3.19	1.57	13.54	2.87	1.55	10.74
Debt securities in issue	4.55	2.30	12.66	4.45	2.14	8.00
Funds borrowed	2.84	1.39	11.42	2.49	1.21	8.95

C. Liquidity risk

Liquidity risk is defined as the risk of unexpected loss occurring or the Group having difficulties in raising funds while meeting maturing liabilities. Liquidity management is daily monitored by the Bank under Treasury Management, Risk Management and Capital Management. The liquidity policy of the Group is approved by the Bank's Board of Directors. Treasury Management is responsible for carrying out transactions which are appropriate to Bank's policy, monitoring of liquidity position and submitting necessary reports to executives. Capital management contributes to determining strategies and operating actions for the management of the liquidity position in addition to preparing funding plans and contingency plans for the Bank in cooperation with Treasury Management. Liquidity risk is evaluated with liquidity gap analysis, liquidity stress tests and supplementary precautions/measurements. Liquidity Gap analysis is performed for two different periods as short-term and long-term. Going concern scenario and structural positions are reported monthly. This reporting constitutes the basis of monitoring and management of liquidity position.

The Bank functions as a central funding institution in its relations with its subsidiaries. Intra-group liquidity management and funding strategies are limited to related legal boundaries.

The Bank issues an annual funding plan in order to sustain funding in a consistent and balanced way. Funding plans have to be updated at least annually and approved by the Executive Committee since they comply with the budgeting process and risk appetite frameworks. The primary purpose of the funding plan is to provide a reliable balance between assets and liabilities.

Both short-term liquidity and long-term (structural) liquidity measurement and reporting for all types of currencies are periodically made for the Bank and its subsidiaries. There are limits which are predetermined and approved by the Board of Directors on the basis of all currencies for each period.

The Bank mainly uses derivative transactions for managing liquidity risk and monitors cash inflow and outflow periods in the framework of funding plan, balancing the distribution among currencies.

The Bank aims to reduce the risks to the lowest level if required via measuring possible risks in liquidity with stress tests. Stress tests make it possible for the Bank to reinterpret the analysis of its liquidity position according to scenarios depending on possible cases and tail risks except for crisis situations. The bank applies weekly liquidity stress tests consisting of different scenarios and maturity segments (maximum 60 days).

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

"Liquidity Contingency Plan" is applied if the Bank needs more liquidity than its daily liquidity need because of possible financial events in future. Duties and responsibilities are defined in detail in the aforementioned plan.

Cash, effective money, cheques, CBRT reserves and debt instruments issued by Treasury of the Republic of Turkey are treated as high quality liquid assets.

Cash outflows from derivative transactions in liquidity coverage ratio calculation are based on inclusion of net cash flows with maturity of 30 days in the calculation. Additionally, transactions having a margin possibility are included in the liquidity coverage ratio calculation by taking the largest amount according to absolute value of net margin flows realized in the last 24 months in respect of 30 day periods or for liability into consideration as cash outflow.

Secured funding consists of repo and secured loan transactions. A large part of securities which are subjects of aforementioned guaranteed funding transactions consist of Sovereign Bonds issued by Treasury of the Republic of Turkey and transactions carried out both in the CBRT market and the interbank market.

The Bank manages all the transactions made by its foreign branches and partnerships within the framework of central bank, markets and related legislation of the country in which the institutions are located. Legal lending limits and high limit transactions are closely monitored in this framework.

D. Capital management

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("BIS"). These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-statement of financial position exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with regulatory guidelines) minus deductions (which comprises participations to financial institutions, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 12%.

The Group's regulatory capital adequacy position on a consolidated basis at June 30, 2017 and December 31, 2016 was as follows:

	June 30, 2017	December 31, 2016
Tier I capital	25,746,101	23,388,409
Tier II capital	9,203,471	9,315,485
Deductions	(133,560)	(219,529)
Total regulatory capital	34,816,012	32,484,365
Risk-weighted assets (including market and operational risk)	253,943,555	246,436,668
Capital adequacy ratio (%)	**13.71**	**13.18**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

F. 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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group did not recognise any transfers between levels of the fair value hierarchy during the year.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group’s estimate of assumptions that a market participant would make when valuing the instruments.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank’s financial instruments that are not carried at fair value in the financial statements.

	June 30, 2017		December 31, 2016	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Loans and advances to banks	5,074,303	5,075,170	3,449,218	3,450,512
Investment securities (held-to-maturity)	11,717,067	11,601,133	11,588,890	10,981,828
Loans and advances to customers	198,985,081	208,127,516	188,980,851	196,517,296
Financial liabilities:				
Deposits from banks	11,328,742	11,345,563	13,811,243	13,824,168
Customer deposits	157,758,441	158,659,385	149,550,753	150,432,741
Funds borrowed	40,366,951	40,333,291	37,167,753	37,188,838
Debt securities in issue	21,653,181	21,727,144	19,308,899	19,391,711

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement 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.

4. Financial risk management (continued)

Loans and advances to banks

The fair value of overnight deposits is considered to approximate their carrying amounts. The estimated fair value of interest bearing placements is based on discounted cash flows using prevailing money market interest rates at the statement of financial position date with similar credit risk and remaining maturity.

Loans and advances to customers

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

Investment securities

Fair value for held-to-maturity securities is based on market prices or prices prevailing at the statement of financial position date announced by the BIST.

Customer deposits, deposits from banks, funds borrowed and debt securities in issue

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of other borrowings without quoted market price is based on discounted cash flows using money market interest rates prevailing at the statement of financial position date with similar credit risk, currency and remaining maturity. The fair value of debt securities in issue is considered to approximate its carrying amount.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments - available-for-sale

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Other liabilities designated at fair value through profit or loss

For unquoted notes issued, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity adjusted for market liquidity and own credit spreads.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Determination of fair value and fair value hierarchy:

IFRS 7 requires classification of line items at fair value presented in the financial statements according to defined levels. These levels depend on the observability of data used during fair value calculations. Classification for fair value is as below:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Assets and liabilities measured at fair value

June 30, 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	32,417	-	-	32,417
- Equity securities	31,572	-	-	31,572
- Derivatives	-	2,139,070	-	2,139,070
Hedging derivatives	-	1,026,505	-	1,026,505
Available-for-sale financial assets				
- Investments securities - debt	18,343,885	1,995,449	-	20,339,334
- Investments securities - equity	74,017	50,466	-	124,483
Total assets	**18,481,891**	**5,211,490**	-	**23,693,381**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	1,879,166	-	1,879,166
- Financial Liabilities designated at fair value	-	4,091,397	-	4,091,397
Hedging derivatives	-	173,156	-	173,156
Total liabilities	**-**	**6,143,719**	**-**	**6,143,719**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	36,713	-	-	36,713
- Equity securities	6,652	-	-	6,652
- Derivatives	-	2,986,773	-	2,986,773
Hedging derivatives	-	1,209,712	-	1,209,712
Available-for-sale financial assets				
- Investments securities - debt	16,052,373	2,053,629	-	18,106,002
- Investments securities - equity	60,849	50,455	-	111,304
Total assets	**16,156,587**	**6,300,569**	**-**	**22,457,156**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	2,578,679	-	2,578,679
- Financial Liabilities designated at fair value	-	3,938,694	-	3,938,694
Hedging derivatives	-	89,296	-	89,296
Total liabilities	**-**	**6,606,669**	**-**	**6,606,669**

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

In the current year, there was no transfer between Level 1 and Level 2 (2016: None).

The fair value amounts of the Bank’s financial instruments disclosed in this note that are not carried at fair value in the financial statements are categorised in Level 2 in the fair value hierarchy except investment securities (held-to-maturity) which are categorised in Level 1.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Cash and cash equivalents for the purpose of presentation in the consolidated statement of cash flows

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	June 30, 2017	June 30, 2016
Cash and cash equivalents	3,020,923	2,363,429
Balances with central banks	31,817,329	26,292,500
Reserve deposits with central banks (-)	(21,846,869)	(22,206,094)
Loans and advances to banks (with original maturity less than 90 days) (+)	4,825,787	3,827,909
Other cash equivalents (+)	186,070	504,727
Total cash and cash equivalents at cash flow statement	**18,003,240**	**10,782,471**

The Bank keeps TL, USD, EUR and Gold reserve deposits for its TL and FX liabilities at the Central Bank Accounts in accordance with the legislation of the Central Bank numbered 2005/1, “Decree on Reserve Deposits”.

Foreign reserve requirements:

Reserve requirements of De Nederlandsche Bank and the Central Bank of Malta are determined in relation to the reserve base of each institution, which are defined in relation to elements of its balance sheet. A reserve ratio of 0% shall apply to deposits with an agreed maturity over two years or deposits redeemable at notice over 2 years, or repos and debt securities issued with an original maturity over two years. A reserve ratio of 1% shall apply to all other liabilities included in the reserve base. Credit institutions established in the euro area may deduct a uniform lump-sum allowance from its reserve requirement. As specified in the European Central Bank Regulation on minimum reserves, the lump-sum allowance amounts to EUR 100,000.

Reserve requirements of the Central Bank of the Russian Federation represent reserve deposits equivalent to 5% of the liabilities to non-resident legal entities in rubles and 7% of the liabilities to non-resident legal entities in foreign currency; to 5% of the liabilities to natural persons in rubles and 6% of the liabilities to natural persons in foreign currency; to 5% of the other liabilities in rubles and 7% of the other liabilities in foreign currency.

Reserve requirements of the National Bank of Azerbaijan represent reserve deposits equivalent to 0.5% (for AZN liabilities), 1.0% (for foreign currency liabilities) of the statutory balances of customer accounts, due to banks and other funds borrowed.

(Amounts expressed in thousands of TL unless otherwise indicated.)

6. Financial assets held for trading

	June 30, 2017	December 31, 2016
Government bonds and treasury bills	32,417	36,713
Total debt securities	**32,417**	**36,713**
Equity securities - listed	31,572	6,652
Total equity securities	**31,572**	**6,652**
Total securities	**63,989**	**43,365**
Derivative financial instruments	2,139,070	2,986,773
Total financial assets held for trading	**2,203,059**	**3,030,138**

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey.

7. Derivative financial instruments and hedging activities

The Group utilizes the following derivative instruments with the general purpose of minimising market risk carried by balance sheet instruments and/or meeting customer demand:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in the over-the-counter (OTC) market. The Group has credit exposure to the counterparties of forward contracts.

"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. Currency swaps involve the exchange of the principal as well. The Group's credit risk represents the potential cost to replace 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 and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

"Options" are contractual agreements that convey the right to the buyer and the obligation to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. A major part of the Group's option book activity stems from clients' needs; therefore to meet client demands the Group actively runs an option book on the residual open positions which are not fully covered. 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.

"Interest rate cap and floor arrangements" provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of June 30, 2017, the Bank's credit derivatives portfolio is composed of "credit linked notes" (embedded derivatives are separated from host contract in line with IAS 39 and recorded as credit default swaps) and "credit default swaps". Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily while credit linked notes are valued monthly.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement 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. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

June 30, 2017

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	18,820,044	321,980	57,212
Currency swaps	92,641,038	544,362	826,608
Over the counter ("OTC") currency options	20,862,301	159,334	149,941
Total OTC foreign exchange derivatives	**132,323,383**	**1,025,676**	**1,033,761**
Interest rate derivatives:			
Interest rate swaps	48,867,260	285,134	198,399
Cross-currency interest rate swaps	12,238,204	771,650	631,364
OTC interest rate options	1,885,894	987	6,915
Total OTC interest rate derivatives	**62,991,358**	**1,057,771**	**836,678**
Other derivatives	**17,964,179**	**55,623**	**8,727**
Total derivative assets/ liabilities held for trading	**213,278,920**	**2,139,070**	**1,879,166**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	2,282,183	50,390	85,605
Derivatives designated as cash flow hedges:			
Interest rate swaps and cross currency interest rate swaps	62,751,933	976,115	87,551
Total derivative assets/ liabilities used for hedging	**65,034,116**	**1,026,505**	**173,156**
Total recognized derivative assets/ liabilities	**278,313,036**	**3,165,575**	**2,052,322**
Current		809,332	454,957
Non-current		2,356,243	1,597,365
Total recognized derivative assets/ liabilities	**278,313,036**	**3,165,575**	**2,052,322**

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

December 31, 2016

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	15,273,549	339,654	195,859
Currency swaps	92,020,096	1,280,801	1,219,902
Over the counter ("OTC") currency options	17,590,138	116,930	120,103
Total OTC foreign exchange derivatives	**124,883,783**	**1,737,385**	**1,535,864**
Interest rate derivatives:			
Interest rate swaps	47,580,058	337,089	220,099
Cross-currency interest rate swaps	13,076,180	905,910	718,859
OTC interest rate options	1,671,894	4,401	5,368
Total OTC interest rate derivatives	**62,328,132**	**1,247,400**	**944,326**
Other derivatives	**18,267,410**	**1,988**	**98,489**
Total derivative assets/ liabilities held for trading	**205,479,325**	**2,986,773**	**2,578,679**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	2,658,411	246,295	50,457
Derivatives designated as cash flow hedges:			
Interest rate swaps	50,014,021	963,417	38,839
Total derivative assets/ liabilities used for hedging	**52,672,432**	**1,209,712**	**89,296**
Total recognized derivative assets/ liabilities	**258,151,757**	**4,196,485**	**2,667,975**
Current		1,969,924	2,207,260
Non-current		2,226,561	460,715
Total recognized derivative assets/ liabilities	**258,151,757**	**4,196,485**	**2,667,975**

Fair value hedges

Starting from March 1, 2009 and July 28, 2015 for marketable securities, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage, car loan portfolios and marketable securities and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funding and marketable securities by using cross-currency interest rate swaps. The net carrying value of hedging derivatives at June 30, 2017 is a liability amounting to TL 35,215 (2016: asset TL 195,838). At June 30, 2017, the fair value difference of the hedged items is an asset amounting to TL 14,187 (2016: asset TL 4,334) and their changes in the fair value for the year amounts to TL 9,853 gain (2016: TL 14,710 gain).

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

Cash flow hedges

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks.

In order to hedge its cash flow risk from liabilities, the Group started to apply cash flow hedge accounting from January 1, 2010 onwards. The hedging instruments are USD, EUR and TL interest rate swaps and cross currency swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to variable interest payments subject to repricing USD, EUR and TL customer deposits, repos and borrowings.

Net loss on cash flow hedges reclassified to the statement of income

The net loss on cash flow hedges reclassified to the statement of income during the six month period ended June 30, 2017 was as follows:

	June 30, 2017	**June 30, 2016**
Net interest expense	56,029	10,278
Taxation	(11,206)	(2,056)

As of June 30, 2017, a gain of TL 3,980 (June 30, 2016: TL 6,687 loss) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of June 30, 2017 the net accumulated gain arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 333,687 gain (December 2016 – TL 379,149 gain).

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings.

The Group’s Euro denominated borrowing is designated as a hedge of the net investment in certain of the Group’s EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at June 30, 2017 is EUR 398 million (December 31, 2016: EUR 386 million). The foreign exchange loss of TL 564,883 (June 30, 2016 – TL 329,728 loss), net of tax, on translation of the borrowing to TL at the statement of financial position date is recognized in “hedging reserves” in equity.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the period (June 30, 2016: None).

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Loans and advances to customers

June 30, 2017

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	126,902,947	31,343,525	22,168,865	8,734,516	2,908,854	192,058,707
Watch listed loans	3,909,139	1,067,886	408,203	258,462	116,704	5,760,394
Loans under legal follow - up	5,657,757	1,556,361	1,084,812	341,701	100,880	8,741,511
Gross	**136,469,843**	**33,967,772**	**23,661,880**	**9,334,679**	**3,126,438**	**206,560,612**
Specific allowance for impairment	(4,576,420)	(1,032,703)	(731,993)	(301,932)	(93,803)	(6,736,851)
Collective allowance for impairment	(608,399)	(141,781)	(35,285)	(43,089)	(10,126)	(838,680)
Total allowance for impairment	**(5,184,819)**	**(1,174,484)**	**(767,278)**	**(345,021)**	**(103,929)**	**(7,575,531)**
Net	**131,285,024**	**32,793,288**	**22,894,602**	**8,989,658**	**3,022,509**	**198,985,081**

December 31, 2016

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	118,698,015	29,912,146	21,780,057	7,966,725	2,709,393	181,066,336
Watch listed loans	4,369,279	1,165,790	466,554	279,550	174,064	6,455,237
Loans under legal follow - up	4,934,745	2,181,464	1,648,934	335,655	141,420	9,242,218
Gross	**128,002,039**	**33,259,400**	**23,895,545**	**8,581,930**	**3,024,877**	**196,763,791**
Specific allowance for impairment	(3,915,130)	(1,429,889)	(1,036,735)	(280,296)	(130,598)	(6,792,648)
Collective allowance for impairment	(723,062)	(173,531)	(44,164)	(39,409)	(10,126)	(990,292)
Total allowance for impairment	**(4,638,192)**	**(1,603,420)**	**(1,080,899)**	**(319,705)**	**(140,724)**	**(7,782,940)**
Net	**123,363,847**	**31,655,980**	**22,814,646**	**8,262,225**	**2,884,153**	**188,980,851**

Loans amounting to TL 539,876 (at amortized cost) included in the performing loans and advances to consumers have been designated as hedged items in fair value hedges as of June 30, 2017 (December 31, 2016: TL 163,861). Those loans have been hedged with interest rate swaps as part of a documented interest rate risk management strategy. The carrying values of such loans 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.

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Loans and advances to customers (continued)

Reconciliation of impairment allowance account for losses on loans and advances by class is as follows:

	Corporate	Consumer	Credit cards	Leasing	Factoring	2017 Total
At January 1	**4,638,192**	**1,603,420**	**1,080,899**	**319,705**	**140,724**	**7,782,940**
Provision for loan impairment	921,830	298,540	197,851	34,132	15,360	1,467,713
Amounts recovered during the year	(199,545)	(89,046)	(58,839)	(8,816)	(151)	(356,397)
Loans written off during the year as uncollectible (-) [1]	(182,325)	(641,567)	(452,908)	-	(52,004)	(1,328,804)
Exchange differences	6,667	3,137	275	-	-	10,079
At June 30	**5,184,819**	**1,174,484**	**767,278**	**345,021**	**103,929**	**7,575,531**

	Corporate	Consumer	Credit cards	Leasing	Factoring	2016 Total
At January 1	**3,118,983**	**1,144,241**	**731,987**	**276,807**	**115,088**	**5,387,106**
Provision for loan impairment	1,659,568	589,705	405,970	57,262	26,873	2,739,378
Amounts recovered during the year	(149,981)	(134,352)	(57,565)	(14,364)	(906)	(357,168)
Loans written off during the year as uncollectible (-) [1]	(111)	(498)	(4)	-	(331)	(944)
Exchange differences	9,733	4,324	511	-	-	14,568
At December 31	**4,638,192**	**1,603,420**	**1,080,899**	**319,705**	**140,724**	**7,782,940**

(1) Includes the effect of provision releases due to sales from loans under legal follow – up.

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Loans and advances to customers (continued)

The calculation of net investment in direct finance leases is as follows:

	June 30, 2017	December 31, 2016
Gross investment in direct finance leases	10,944,528	9,786,865
Unearned finance income	(1,791,395)	(1,529,605)
	9,153,133	**8,257,260**
Interest accrual on receivables	145,962	120,146
Receivables from outstanding lease payments	35,584	204,524
Provision for impaired lease receivables	(345,021)	(319,705)
Net investment in direct finance leases	**8,989,658**	**8,262,225**

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	June 30, 2017	December 31, 2016
Less than 1 year	3,257,880	2,798,694
More than 1 year but not later than 5 years	6,296,420	5,736,824
Later than 5 years	971,611	960,830
Less: unearned finance income	(1,791,395)	(1,529,623)
Investment in performing lease receivables	**8,734,516**	**7,966,725**

(Amounts expressed in thousands of TL unless otherwise indicated.)

9. Investment securities

(i) Securities available-for-sale

	June 30, 2017	December 31, 2016
Debt securities - at fair value:		
Government bonds and treasury bills	13,658,264	10,796,625
Eurobonds	1,347,329	1,602,741
Government and corporate bonds and treasury bills sold under repurchase agreements	3,390,508	3,651,723
Other	1,943,233	2,054,913
Equity securities - at fair value:		
Listed	74,017	60,849
Unlisted	50,466	50,455
Total securities available-for-sale	**20,463,817**	**18,217,306**
Current	1,188,691	973,154
Non-current	19,275,126	17,244,152

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey. Other securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and credit linked notes and other bonds issued by domestic and foreign financial institutions.

Net loss from changes in the fair value of available-for-sale investment securities, net of tax is TL 459,729 (June 30, 2016: TL 335,870 net gain). There are no impairments recognized for available-for-sale debt securities.

(ii) Securities held-to-maturity

	June 30, 2017	December 31, 2016
Debt securities - at amortized cost - listed:		
Government bonds and treasury bills	4,528,288	3,829,504
Eurobonds	5,229,154	3,969,341
Government bonds and treasury bills sold under repurchase agreements	559,934	1,099,964
Eurobonds sold under repurchase agreement	1,105,315	1,890,245
Foreign government bonds	294,376	799,836
Total securities held-to-maturity	**11,717,067**	**11,588,890**
Current	1,415,531	1,127,845
Non-current	10,301,536	10,461,045

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Deposits from banks

		June 30, 2017			December 31, 2016	
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency:						
Domestic banks	307	1,396,061	1,396,368	413,004	380,625	793,629
Foreign banks	166,852	2,231,012	2,397,864	63,453	1,657,210	1,720,663
Funds deposited under repurchase agreements	-	1,449,875	1,449,875	-	1,979,688	1,979,688
	167,159	**5,076,948**	**5,244,107**	**476,457**	**4,017,523**	**4,493,980**
TL:						
Domestic banks	125,435	2,809,451	2,934,886	19,063	5,482,975	5,502,038
Foreign banks	47,229	2,510	49,739	118,130	37,665	155,795
Funds deposited under repurchase agreements	-	3,100,010	3,100,010	-	3,659,430	3,659,430
	172,664	**5,911,971**	**6,084,635**	**137,193**	**9,180,070**	**9,317,263**
	339,823	**10,988,919**	**11,328,742**	**613,650**	**13,197,593**	**13,811,243**
Current	339,823	10,988,919	11,328,742	613,650	13,110,540	13,724,190
Non-current	-	-	-	-	87,053	87,053

11. Customer deposits

		June 30, 2017			December 31, 2016	
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	6,919,039	26,935,780	33,854,819	5,259,160	22,684,150	27,943,310
Commercial deposits	9,159,625	36,354,950	45,514,575	8,033,767	34,358,576	42,392,343
	16,078,664	**63,290,730**	**79,369,394**	**13,292,927**	**57,042,726**	**70,335,653**
TL deposits:						
Saving deposits	6,463,166	36,230,422	42,693,588	6,145,162	34,938,530	41,083,692
Commercial deposits	5,940,658	28,249,507	34,190,165	6,899,733	30,362,121	37,261,854
Funds deposited under repurchase agreements	-	310,432	310,432	-	634,683	634,683
Public sector deposits	1,187,308	7,554	1,194,862	230,784	4,087	234,871
	13,591,132	**64,797,915**	**78,389,047**	**13,275,679**	**65,939,421**	**79,215,100**
	29,669,796	**128,088,645**	**157,758,441**	**26,568,606**	**122,982,147**	**149,550,753**
Current	29,669,796	126,937,108	156,606,904	26,568,606	121,883,978	148,452,584
Non-current	-	1,151,537	1,151,537	-	1,098,169	1,098,169

(Amounts expressed in thousands of TL unless otherwise indicated.)

12. Funds borrowed

	June 30, 2017	December 31, 2016
Foreign institutions and banks		
Syndication loans	9,009,938	8,765,744
Subordinated debt	3,714,311	3,727,751
Other	19,791,176	18,950,915
Total foreign	**32,515,425**	**31,444,410**
Domestic institutions and banks		
Domestic banks	3,861,655	2,792,115
Interbank money market and Settlement Custody Bank	3,989,871	2,931,228
Total domestic	**7,851,526**	**5,723,343**
	40,366,951	**37,167,753**
Current	27,499,148	24,990,528
Non-current	12,867,803	12,177,225

On May 15, 2015, the Parent Bank paid a subordinated loan before its maturity amounting to EUR 500 million, with 10 years maturity which was originated on March 31, 2006. The interest rate was EURIBOR+3% (for the first five years it was EURIBOR+2%). The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor.

The Parent Bank obtained a subordinated loan on June 25, 2007 amounting to EUR 200 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate was determined as EURIBOR+1.85% for the first 5 years and EURIBOR+2.78% for the remaining 5 years. The loan was obtained from Citibank, N.A., London Branch with Unicredito Italiano SpA as guarantor. On June 30, 2016, the Parent Bank paid the subordinated loan before its maturity amounting to EUR 200 million.

The Parent Bank had early repaid its borrowing for USD 585 million on January 9, 2013 the Bank has received from Unicredit Bank Austria AG on February 22, 2012 with an interest rate of 3 months Libor + 8.30% and received another subordinated borrowing from the same counterparty for USD 585 million with 10 years of maturity (payable after 5 years) and 5.5% fixed interest rate. The Parent Bank incurred an early payment fee for TL 57 million with respect to early closing of this subordinated loan. On January 30, 2015, relevant articles of this agreement have been amended in accordance with Article 8 of the Regulation Regarding Equity of Banks, which is the relevant legislation in force issued by the BRSA. In addition, the interest rate in the credit agreement has been updated as 5.70%.

The Parent Bank obtained a subordinated loan on December 18, 2013 amounting to USD 470 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate is determined as 6.35% for the first 5 years and midswap+4.68% for the remaining 5 years. The loan was obtained from Unicredit Bank Austria AG. On January 30, 2015, relevant articles of this agreement have been amended in accordance with Article 8 of the Regulation on Own Fund of Banks. In addition, the interest rate has been amended to 6.55% fixed for the first 5 years and Midswap+4.88% for the remaining 5 years.

(Amounts expressed in thousands of TL unless otherwise indicated.)

13. Debt securities in issue

	June 30, 2017	December 31, 2016
Securitization borrowings	6,497,947	6,564,507
Subordinated debt	5,321,243	5,340,142
Bills	1,541,640	1,486,456
Bonds	8,292,351	5,917,794
	21,653,181	**19,308,899**
Current	4,650,253	5,837,213
Non-current	17,002,928	13,471,686
	21,653,181	**19,308,899**

On November 29, 2012, the Parent Bank issued a Basel II compliant 10 year bullet subordinated note for an amount of USD 1 billion. The note has a 5.5% coupon and was counted towards capital at 25% as of June 30, 2017.

On March 8, 2016, the Parent Bank launched a Basel III compliant subordinated note transaction with a 10 year 1 day maturity and an early payment option at the end of the 5th year for an amount of USD 500 million. The note has an 8.5% coupon. If the notes are not redeemed at the fifth year, the coupon will be reset as 5 year mid-swap + 7.40% for the remaining 5 years.

14. Financial Liabilities Designated at Fair Value

The Group classified some of its debt securities issued as financial liabilities designated at fair value in order to eliminate the accounting mismatch at initial recognition in accordance with IAS 39 paragraph 9. As of June 30, 2017, the total amount of financial liabilities designated at fair value through profit/loss is TL 4,091,397 (December 31, 2016:TL 3,938,694) and the fair value expense is TL 168,692 (December 31, 2016:TL 19,783 expense) recognized in the income statement as expense.

The nominal amounts of the total return swaps which are closely related to debt securities issued as financial liabilities designated at fair value as of June 30, 2017 are TL 4,019,137 (December 31, 2016: TL 4,033,003) for buy legs and TL 4,019,137 (December 31, 2016: TL 4,033,003) for sell legs with a fair value differences amounting to TL 51,172 asset (December 31, 2016: 97,052 TL liability). The mentioned total return swaps have 10 years maturity in average.

(Amounts expressed in thousands of TL unless otherwise indicated.)

15. Taxation

	June 30, 2017	June 30, 2016
Current tax expense	(789,053)	(489,755)
Deferred tax expense	345,830	62,376
Income tax expense	**(443,223)**	**(427,379)**

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

Deferred income taxes

For all domestic subsidiaries and the Parent Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled under the liability method using a principal tax rate of 20% at June 30, 2017 (December 31, 2016: 20%).

For foreign subsidiaries deferred income taxes are calculated on all temporary differences under the liability method before the exemptions using the principal tax rates at June 30, 2017 and December 31, 2016 which are as follows:

		Tax rate (%)
Country of incorporation	June 30, 2017	December 31, 2016
Russia	20.00	20.00
Netherlands	25.00	25.00
Azerbaijan	20.00	20.00
Malta	35.00	35.00

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Impairment on assets	363,909	363,910	38,713	38,714
Allowance for loan impairment	1,091,137	1,015,922	217,988	203,143
Pension benefits transferable to the Social Security Institution (“SSI”) (Note 24)	568,006	568,006	113,601	113,601
Reserve for employment termination benefits (Note 24)	134,723	129,510	27,485	26,388
Revaluation of derivative instruments at fair value	2,079,648	2,711,672	415,936	542,334
Valuation differences on investment securities	82,015	59,754	16,402	11,951
Other	1,704,714	1,251,350	349,415	250,270
Deferred income tax assets	**6,024,152**	**6,100,124**	**1,179,540**	**1,186,401**
Difference between carrying value and tax base of property and equipment	671,485	698,636	76,006	81,975
Valuation differences on investment securities	49,901	522,134	10,096	104,545
Revaluation of derivative instruments at fair value	3,221,621	4,266,432	632,986	853,286
Other	486,171	295,149	110,279	60,241
Deferred income tax liabilities	**4,429,178**	**5,782,351**	**829,367**	**1,100,047**
Deferred income tax assets, net (1)	**1,594,974**	**317,773**	**350,173**	**86,354**

(1) Includes TL 10,039 deferred tax liabilities as of June 30, 2017 (December 31, 2016 – TL 7,892 liabilities).

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Other provisions

	June 30, 2017	December 31, 2016
Provision for losses on credit related commitments	389,789	391,204
Tax and other legal provisions	147,541	138,852
Provision on export commitment estimated liability	45,713	45,690
Other	334,590	189,268
	917,633	**765,014**
Current	-	-
Non-current	917,633	765,014

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized a provision of TL 389,789 (December 2016: TL 391,204).

Tax and other legal provisions

The Group has recorded a provision of TL 81,004 (December 2016: TL 75,955) for litigation and has accounted for it in the financial statements under the "Other provisions" account. Except for the cases where provisions are recorded, management considers that negative results in ongoing litigations resulting in cash outflows is not probable.

The Group also recorded a total provision of TL 66,537 (December 2016: TL 62,897) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended June 30, 2017.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up where they do not have the ability to fulfill their export commitments and have recognized a provision of TL 45,713 (December 2016: TL 45,690).

Movement in other provisions is as follows:

	Provision for credit related commitments	Tax and other legal provisions	Export commitment provisions	Other	2017 Total	2016 Total
At January 1	**391,204**	**138,852**	**45,690**	**189,268**	**765,014**	**713,469**
Provision charged	7,541	8,769	436	157,648	174,394	173,891
Provision used / released	(8,970)	(80)	(413)	(12,326)	(21,789)	(52,400)
Translation difference	14	-	-	-	14	(424)
Balance at June 30	**389,789**	**147,541**	**45,713**	**334,590**	**917,633**	**834,536**

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Retained earnings and other reserves

	June 30, 2017	December 31, 2016
Statutory reserve	869,435	844,564
Translation reserves	987,696	832,926
Revaluation reserve - available-for-sale investments	39,032	(420,697)
Hedging reserves	(241,735)	(104,501)
Re-measurement gains on defined benefit liability	10,548	10,548
Revaluation of art objects and paintings	32,693	32,693
Total other reserves	**1,697,669**	**1,195,533**
Retained earnings	**22,686,198**	**20,901,197**

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Actuarial gains	Revaluation of fixed assets	Total
At January 1, 2017	**844,564**	**(420,697)**	**832,926**	**(104,501)**	**10,548**	**32,693**	**1,195,533**
Net change in available-for-sale investments, net of tax	-	459,729	-	-	-	-	459,729
Gains / (losses) on hedges of a net investment in a foreign operation	-	-	-	(91,771)	-	-	(91,771)
Gains / (losses) on cash flow hedges	-	-	-	(45,463)	-	-	(45,463)
Currency translation differences	-	-	154,770	-	-	-	154,770
Re-measurement gains on defined benefit liability, net of tax	-	-	-	-	-	-	-
Revaluation of art objects and paintings, net of tax	-	-	-	-	-	-	-
Transfer to statutory reserves	24,871	-	-	-	-	-	24,871
At June 30, 2017	**869,435**	**39,032**	**987,696**	**(241,735)**	**10,548**	**32,693**	**1,697,669**

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Actuarial gains	Revaluation of fixed assets	Total
At January 1, 2016	**751,537**	**(242,235)**	**506,391**	**(54,488)**	**5,610**	**32,693**	**999,508**
Net change in available-for-sale investments, net of tax	-	335,870	-	-	-	-	335,870
Gains / (losses) on hedges of a net investment in a foreign operation	-	-	-	(7,272)	-	-	(7,272)
Gains / (losses) on cash flow hedges	-	-	-	(687,172)	-	-	(687,172)
Currency translation differences	-	-	27,858	-	-	-	27,858
Re-measurement gains on defined benefit liability, net of tax	-	-	-	-	(46)	-	(46)
Revaluation of art objects and paintings, net of tax	-	-	-	-	-	-	-
Transfer to statutory reserves	93,027	-	-		-	-	93,027
At June 30, 2016	**844,564**	**93,635**	**534,249**	**(748,932)**	**5,564**	**32,693**	**761,773**

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Retained earnings and other reserves (continued)

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

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

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

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

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

As per the Ordinary General Assembly meeting held for the year 2016 on March 31, 2017 it has been decided that no dividend is to be paid to shareholders.

18. Net trading, hedging and fair value income and net gains / losses from investment securities

	June 30, 2017	June 30, 2016
Foreign exchange:		
- Transaction gains less losses on derivatives and securities	(68,661)	1,102,945
Interest rate instruments	116,873	(831,785)
Credit derivatives	982	2,537
	49,194	**273,697**

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities. Interest rate instruments include the results of making markets in government securities, money market instruments, interest rate and cross currency interest rate swaps, options, hedge items and other derivatives.

(Amounts expressed in thousands of TL unless otherwise indicated.)

19. Other operating expenses

	June 30, 2017	June 30, 2016
Staff costs	**(1,246,457)**	**(1,143,084)**
Depreciation on property and equipment	(100,945)	(104,491)
Amortization of intangible assets	(65,017)	(60,479)
Depreciation and amortization	**(165,962)**	**(164,970)**
Rent expenses	(158,610)	(153,918)
Payment to Saving Deposit Insurance Fund	(98,832)	(84,628)
Marketing and advertisement costs	(85,268)	(64,254)
Communication expenses	(73,476)	(81,481)
Sundry taxes and duties	(66,535)	(66,896)
Repair and maintenance expenses	(56,835)	(49,652)
Audit and consultancy fees	(46,885)	(42,902)
Utilities expenses	(29,122)	(25,262)
Other	(321,163)	(311,282)
General and administrative expenses	**(936,726)**	**(880,275)**
Total	**(2,349,145)**	**(2,188,329)**

20. 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 Parent 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 period is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the period in which they were issued and for each earlier period.

The Bank has not issued any shares attributable to transfers to share capital from retained earnings during the year ended June 30, 2017 (June 30, 2016: none).

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

	June 30, 2017	June 30, 2016
Profit attributable to equity holders of the Parent	1,809,872	1,749,989
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	**4.16**	**4.03**

(Amounts expressed in thousands of TL unless otherwise indicated.)

21. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	June 30, 2017		December 31, 2016	
	Assets	Related liability	Assets	Related liability
Investment securities (Note 9)	13,351,379	9,415,675	12,229,685	10,663,792
Other assets pledged (1)	1,430,242	-	1,586,505	-
Total	**14,781,621**	**9,415,675**	**13,816,190**	**10,663,792**

(1) Other assets pledged represent collateral given to the counter parties of the derivative transactions and additional collateral given in relation to funds obtained under repurchase agreements.

Available-for-sale, held-to-maturity and trading securities whose total carrying amount is TL 6,271,117 as of June 30, 2017 (December 2016: TL 7,882,529) are pledged to banks and other financial institutions against borrowed funds and funds obtained under repurchase agreements and total return swap transactions. The total amount of funds obtained under repurchase agreements and total return swaps is TL 9,415,675 as of June 30, 2017 (December 2016: TL 10,663,792). In accordance with the terms of the agreements with these financial institutions ("transferees"), the Bank provides this collateral (debt instruments as given above) to the transferees and the transferees have the right to sell or re-pledge the collaterals until the expiry date of the agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, Istanbul Stock Exchange (ISE) Settlement and Custody Bank and other financial institutions and amount to TL 7,080,262 (December 31, 2016: TL 4,347,157).

As of June 30, 2017, the Group's reserve deposits, including those at foreign central banks, amount to TL 29,412,200 (December 31, 2016: TL 27,864,220). There is also TL 221,215 (December 31, 2016: TL 119,931) of blocked deposits held in foreign bank accounts.

The Group does not have any financial assets and liabilities that are offset in the financial statements or subject to an enforceable master netting agreement or similar agreements. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize assets and settle liabilities simultaneously.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the above transactions summarized in the above table.

22. Commitments and contingent liabilities

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognizes provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reliably estimated.

(Amounts expressed in thousands of TL unless otherwise indicated.)

22. Commitments and contingent liabilities (continued)

In respect of further claims asserted against the Group, which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group's financial position.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if 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 Group 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.

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.

As of June 30, 2017 the Group's commitments for unused credit card limits amounted to TL 32,426,057 (December 31, 2016: TL 29,878,711).

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

June 30, 2017(1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	8,930,902	2,952,674	6,165	11,889,741
Letter of guarantees	22,018,293	11,640,424	19,023,484	4,171,196	56,853,397
Acceptance credits	-	223,119	26,267	2,561	251,947
Other commitments	504,874	733,994	1,234,448	3,398,264	5,871,580
Total	**22,523,167**	**21,528,439**	**23,236,873**	**7,578,186**	**74,866,665**

December 31, 2016(1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	6,654,515	2,532,433	6,222	9,193,170
Letter of guarantees	21,464,214	9,410,155	18,179,733	3,738,129	52,792,231
Acceptance credits	-	168,491	24,902	2,373	195,766
Other commitments	341,794	551,945	2,178,223	3,201,355	6,273,317
Total	**21,806,008**	**16,785,106**	**22,915,291**	**6,948,079**	**68,454,484**

(1) Based on original maturities.

23. Segment analysis

The Group carries out its banking operations through three main business units: (1) Retail Banking (including credit cards and SME banking), (2) Corporate and Commercial Banking (3) Private Banking and Wealth Management.

The Group's Retail Banking activities include card payment systems, SME (small medium size enterprises) banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans, mortgages), commercial installment loans, SME loans, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit card and a prepaid card named World Hediye Card.

Corporate and Commercial Banking segment is organized into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and Multinational Companies Banking for multinational companies. Corporate and Commercial Banking, has a product range of working capital finance, trade finance, project finance, domestic and international non-cash loans such as letters of credit and letters of guarantee, cash management and internet banking.

Through its Private Banking and Wealth Management activities, the Bank serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposit products, capital guaranteed funds, mutual funds, Type A Type B funds, derivative products such as forwards, futures and options in domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments. Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan, Russia and Malta. Treasury, Asset – Liability Management and other operations, mainly consist of treasury management's results, operations of supporting business units and other unallocated transactions.

The below table is prepared in accordance with the Management Information System (MIS) data of the Group.

(Amounts expressed in thousands of TL unless otherwise indicated.)

23. Segment analysis (continued)

The Group's management manages segment performance based on IFRS consolidated figures.

June 30, 2017	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Other foreign operations	Other domestic operations	Treasury, asset liability Management and Other(1)	Eliminations(2)	Group
Segment revenue	2,309,811	1,639,299	142,736	152,176	349,523	1,261,724	(13,376)	5,841,893
Segment expenses	(2,250,620)	(469,350)	(53,148)	(61,814)	(127,687)	(677,142)	3,907	(3,635,854)
Segment result	59,191	1,169,949	89,588	90,362	221,836	584,582	(9,469)	2,206,039
Operating profit	**59,191**	**1,169,949**	**89,588**	**90,362**	**221,836**	**584,582**	**(9,469)**	**2,206,039**
Share of results of associates and joint ventures	-	-	-	-	-	47,095	-	47,095
Profit before tax	**59,191**	**1,169,949**	**89,588**	**90,362**	**221,836**	**631,677**	**(9,469)**	**2,253,134**
Income tax expense(4)	-	-	-	-	-	(443,223)	-	(443,223)
Profit for the year	**59,191**	**1,169,949**	**89,588**	**90,362**	**221,836**	**188,454**	**(9,469)**	**1,809,911**
June 30, 2017								
Segment assets(3)	73,475,436	91,396,343	168,340	10,687,169	17,790,713	92,300,084	(2,478,825)	283,339,260
Associates and joint ventures	-	-	-	-	-	724,450	-	724,450
Total assets	**73,475,436**	**91,396,343**	**168,340**	**10,687,169**	**17,790,713**	**93,024,534**	**(2,478,825)**	**284,063,710**
Segment liabilities(3)	68,488,956	59,988,898	33,549,918	8,740,540	15,472,794	100,743,042	(2,920,438)	284,063,710
Total liabilities	**68,488,956**	**59,988,898**	**33,549,918**	**8,740,540**	**15,472,794**	**100,743,042**	**(2,920,438)**	**284,063,710**

(1) Other segment liabilities also include the equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.
(3) Segment asset and liabilities figures are prepared according to Management Information Systems (MIS) data.
(4) Income tax expenses have not been distributed based on operating segments and have been presented under "Treasury, asset liability management and other".

June 30, 2016	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Other foreign operations	Other domestic operations	Treasury, asset liability Management and Other(1)	Eliminations(2)	Group
Segment revenue	2,220,197	1,367,496	118,422	118,679	298,771	1,433,252	(103,832)	5,452,985
Segment expenses	(2,002,745)	(446,001)	(49,844)	(64,358)	(103,513)	(646,847)	4,462	(3,308,846)
Segment result	217,452	921,495	68,578	54,321	195,258	786,405	(99,370)	2,144,139
Operating profit	**217,452**	**921,495**	**68,578**	**54,321**	**195,258**	**786,405**	**(99,370)**	**2,144,139**
Share of results of associates and joint ventures	-	-	-	-	-	33,262	-	33,262
Profit before tax	**217,452**	**921,495**	**68,578**	**54,321**	**195,258**	**819,667**	**(99,370)**	**2,177,401**
Income tax expense(4)	-	-	-	-	-	(427,379)	-	(427,379)
Profit for the year	**217,452**	**921,495**	**68,578**	**54,321**	**195,258**	**392,288**	**(99,370)**	**1,750,022**
December 31, 2016								
Segment assets(3)	68,420,767	87,360,696	156,652	9,235,035	16,804,261	89,217,723	(3,344,929)	267,850,205
Associates and joint ventures	-	-	-	-	-	682,728	-	682,728
Total assets	**68,420,767**	**87,360,696**	**156,652**	**9,235,035**	**16,804,261**	**89,900,451**	**(3,344,929)**	**268,532,933**
Segment liabilities(3)	61,218,411	55,827,497	32,536,775	7,482,674	14,577,348	100,686,053	(3,795,825)	268,532,933
Total liabilities	**61,218,411**	**55,827,497**	**32,536,775**	**7,482,674**	**14,577,348**	**100,686,053**	**(3,795,825)**	**268,532,933**

(1) Other segment liabilities also include the equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.
(3) Segment asset and liabilities figures are prepared according to Management Information Systems (MIS) data.
(4) Income tax expenses have not been distributed based on operating segments and have been presented under "Treasury, asset liability management and other".

(Amounts expressed in thousands of TL unless otherwise indicated.)

24. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is controlled by Koç Group and UCG, owning 50% of the ordinary shares each of KFS.

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

(i) Balances with related parties:

	June 30, 2017			
	Parent	**Other[1]**	**Key management**	**Total**
Loans and advances to customers, net	124,610	2,996,063	5	3,120,678
Trading and investment securities	-	179,395	-	179,395
Derivative financial instruments	42,876	15	-	42,891
Loans and advances to banks	78,595	49,396	-	127,991
Other assets	-	1,556	-	1,556
Total assets	**246,081**	**3,226,425**	**5**	**3,472,511**
Customer deposits	12,752,542	6,675,279	278,694	19,706,515
Funds borrowed	19,692,264	298,878	-	19,991,142
Derivative financial instruments	-	16,369	-	16,369
Other liabilities	190	675	-	865
Deposits from banks	747,460	177,233	-	924,693
Total liabilities	**33,192,456**	**7,168,434**	**278,694**	**40,639,584**
Commitment under derivative instruments	6,677,081	1,848,464	-	8,525,545
Credit related commitments	1,340,895	2,460,138	-	3,801,033
Total commitments and contingent liabilities	**8,017,976**	**4,308,602**	**-**	**12,326,578**

	December 31, 2016			
	Parent	**Other[1]**	**Key management**	**Total**
Loans and advances to customers, net	460,887	2,808,226	59	3,269,172
Trading and investment securities	-	240,124	-	240,124
Derivative financial instruments	2,028	504	-	2,532
Loans and advances to banks	58,557	35,256	-	93,813
Other assets	5	1,296	-	1,301
Total assets	**521,477**	**3,085,406**	**59**	**3,606,942**
Customer deposits	11,536,318	7,241,686	218,528	18,996,532
Funds borrowed	18,958,940	301,269	-	19,260,209
Derivative financial instruments	23,293	11	-	23,304
Other liabilities	198	668	-	866
Deposits from banks	633,580	173,284	-	806,864
Total liabilities	**31,152,329**	**7,716,918**	**218,528**	**39,087,775**
Commitment under derivative instruments	8,532,884	802,512	-	9,335,396
Credit related commitments	1,158,561	2,595,229	-	3,753,790
Total commitments and contingent liabilities	**9,691,445**	**3,397,741**	**-**	**13,089,186**

(1) Other consists of entities with joint control or significant influence over entities, associates and joint ventures in which they are joint-venturer or related parties.

(Amounts expressed in thousands of TL unless otherwise indicated.)

24. Related party transactions (continued)

(ii) Transactions with related parties:

	June 30, 2017			
	Parent	**Other[1]**	**Key management**	**Total**
Interest income on loans and advances to customers	3,587	158,102	-	161,689
Fee and commission income	8,542	25,653	-	34,195
Interest income on financial leases	-	3,953	-	3,953
Interest income on loans and advances to banks	-	89	-	89
Total interest and fee income	**12,129**	**187,797**	**-**	**199,926**
Interest expense on deposits	(611,928)	(386,734)	(5,751)	(1,004,413)
Interest expense on funds borrowed	(55,998)	(68,272)	-	(124,270)
Other operating expense	(3,136)	(3,769)	-	(6,905)
Fee and commission expense	-	(117)	-	(117)
Total interest and fee expense	**(671,062)**	**(458,892)**	**(5,751)**	**(1,135,705)**

	June 30, 2016			
	Parent	**Other[1]**	**Key management**	**Total**
Interest income on loans and advances to customers	1,868	118,022	-	119,890
Fee and commission income	8,548	21,460	-	30,008
Interest income on financial leases	-	17,558	-	17,558
Interest income on loans and advances to banks	-	228	-	228
Total interest and fee income	**10,416**	**157,268**	**-**	**167,684**
Interest expense on deposits	(507,002)	(257,366)	(6,483)	(770,851)
Interest expense on funds borrowed	(39,893)	(69,280)	-	(109,173)
Other operating expense	(1,397)	(2,168)	-	(3,565)
Fee and commission expense	-	(110)	-	(110)
Total interest and fee expense	**(548,292)**	**(328,924)**	**(6,483)**	**(883,699)**

(1) Other consists of entities with joint control or significant influence over entities, associates and joint ventures in which they are a joint-venturer or related parties.

Salaries and other benefits paid to the Group's key management approximately amount to TL 39,327 as of June 30, 2017 (June 30, 2016: TL 37,552).

A significant part of the related party balances and transactions are with related parties other than the parent or associate or joint venture; mainly comprising Koç Group and UCG entities.

25. Subsequent events

None.