ICBC Turkey Bank Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
As At and For The Year Ended
31 December 2017
With Independent Auditors' Report Thereon

30 April 2019

This report contains the "Independent Auditors' Report" comprising 4 pages and; the "Financial statements and their explanatory notes" comprising 65 pages.

ICBC Turkey Bank Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of ICBC Turkey Bank A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ICBC Turkey Bank A.Ş. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of the carrying value of loans and advances to customers held at amortised cost

Refer to Note 9 Loans and advances to customers

The key audit matter	*How the matter was addressed in our audit*
The appropriateness of loan loss provisions is a key area of judgment for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.	We assessed and tested the design and operating effectiveness of the controls over impairment calculations including the quality of underlying data and systems. For loan loss provisions calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. For loan loss provisions calculated on a collective basis we tested the appropriateness and accuracy of the inputs to those models, compared data and assumptions made to external benchmarks. Finally, we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosures for forbearance and cover values.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Orhan Akova
Partner

30 April 2019
Istanbul, Turkey

ICBC TURKEY BANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and balances with the Central Bank	*6*	359,713	497,730
Reserve deposits at Central Bank	*6*	990,758	660,885
Due from banks	*6*	1,604,967	221,449
Money market placements	*6*	9,600	4,763
Financial assets at fair value through profit and loss		31,289	6,679
-Trading securities	*7*	*30,549*	*5,125*
-Derivative financial instruments	*17*	*740*	*1,554*
Loans and advances to customers	*9*	7,662,226	5,085,021
Investment securities	*8*	2,482,423	1,722,936
-Available-for-sale		*1,989,010*	*1,538,349*
-Investment securities-held to maturity		*493,413*	*184,587*
Tangible assets	*10*	36,765	29,821
Intangible assets	*11*	5,194	2,982
Deferred tax assets	*16*	15,178	11,508
Other assets	*12*	102,572	54,376
Total assets		**13,300,685**	**8,298,150**
LIABILITIES			
Due to banks	*13*	71,241	454,474
Deposits	*13*	3,273,860	2,850,077
Other money market deposits	*13*	1,149,966	334,785
Derivative financial instruments	*17*	14,284	791
Funds borrowed	*14*	6,988,038	3,771,835
Income tax payable	*16*	15,512	3,076
Employee benefits	*15*	15,977	13,679
Provisions	*15*	20,709	19,764
Other liabilities	*15*	549,335	216,145
Total liabilities		**12,098,922**	**7,664,626**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	*18*	860,000	420,000
Adjustment to share capital		4,108	4,108
Share capital premium		411	184
Fair value reserves		(5,596)	(20,572)
Revaluation surplus on buildings		11,646	10,143
Actuarial gain/(loss)		182	552
Legal reserves and retained earnings	*19*	331,012	219,109
Total equity		**1,201,763**	**633,524**
Total liabilities and equity		**13,300,685**	**8,298,150**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

ICBC TURKEY BANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	**1 January– 31 December 2017**	**1 January– 31 December 2016**
Interest income			
Interest on loans and advances		517,389	372,869
Interest on securities		183,194	63,284
Interest on deposits with other banks and financial institutions		8,288	1,573
Interest on other money market placements		4,675	7,211
Other interest income		18,515	7,921
Total interest income		**732,061**	**452,858**
Interest expense			
Interest on deposits		(211,185)	(160,272)
Interest on funds borrowed		(123,874)	(64,623)
Interest on other money market deposits		(42,475)	(14,096)
Other interest expense		(79,388)	(51,527)
Total interest expense		**(456,922)**	**(290,518)**
Net interest income		**275,139**	**162,340**
Net impairment of loans and advances and credit related commitments	*9*	(7,844)	769
Net interest income after provision for impairment of loans and advances		**267,295**	**163,109**
Foreign exchange gain/(loss), net		9,716	31,657
Net interest income after foreign exchange gain and provision for impairment of loans and advances		**277,011**	**194,766**
Other operating income			
Fee and commission income	*23*	8,170	6,699
Income from banking services	*24*	86,950	35,479
Net trading income	*25*	4,940	4,445
Other income	*26*	3,774	12,274
		103,834	**58,897**
Other operating expenses			
Fee and commission expense	*23*	(6,362)	(5,687)
Salaries and employee benefits	*27*	(132,681)	(114,351)
Depreciation and amortization	*10,11*	(6,926)	(4,578)
Taxes other than on income		(10,935)	(10,988)
General and administrative expenses	*28*	(61,099)	(49,012)
Other expenses	*29*	(19,406)	(15,904)
		(237,409)	**(200,520)**
Profit from operating activities before income tax		**143,436**	**53,143**
Current tax expense	*16*	(39,898)	(8,379)
Deferred tax income	*16*	7,697	(3,932)
Profit for the year		**111,235**	**40,832**
Profit attributable to:			
Owners of the Bank		111,235	40,832
Non-controlling interest		-	-
		111,235	**40,832**
Earnings per share			
Basic and diluted per share (expressed in full TL)		**0.0129**	**0.0097**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

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

	Notes	**1 January– 31 December 2017**	**1 January– 31 December 2016**
Profit for the year		**111,235**	**40,832**
Other comprehensive income, net of income tax			
Other comprehensive income items that are or may be reclassified subsequently to profit or loss			
Fair value reserves (available-for-sale financial assets)			
Net change in fair value		18,720	(12,885)
Tax related to gain/loss recognized under equity		(3,744)	2,577
Net change in fair value		**14,976**	**(10,308)**
Other comprehensive income items that will not be reclassified subsequently to profit or loss			
Revaluation surplus on buildings		1,879	1,811
Tax related to gain/loss recognized under equity		(376)	(362)
Net change in revaluation on buildings		**1,503**	**1,449**
Actuarial gain/(loss)		(463)	309
Tax related to gain/loss recognized under equity		93	(62)
Net change in actuarial gain/(loss)		**(370)**	**247**
Other comprehensive income, net of tax		**16,109**	**(8,612)**
Total comprehensive income for the year		**127,344**	**32,220**
Attributable to:			
Owners of the Bank		**127,344**	**32,220**
Non-controlling interest		**-**	**-**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

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

	Notes	Share Capital	Adjustment to share capital	Share capital premium	Fair value Reserves	Revaluation surplus on buildings	Actuarial gain/(loss)	Legal reserves and retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2016		**420,000**	**4,108**	**184**	**(10,264)**	**8,694**	**305**	**178,601**	**601,628**	**-**	**601,628**
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	40,832	40,832	-	40,832
Other comprehensive income											
Net change in available-for-sale investments		-	-	-	(10,308)	-	-	(324)	(10,632)	-	(10,632)
Revaluation surplus on buildings	*10,19*	-	-	-	-	1,449	-	-	1,449	-	1,449
Actuarial gain/(loss)	*15,19*	-	-	-	-	-	247	-	247	-	247
Total comprehensive income for the year		-	-	-	(10,308)	1,449	247	40,508	31,896	-	31,896
Dividend paid		-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2016 / 1 January 2017		**420,000**	**4,108**	**184**	**(20,572)**	**10,143**	**552**	**219,109**	**633,524**	**-**	**633,524**
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	111,235	111,235	-	111,235
Other comprehensive income											
Net change in available-for-sale investments		-	-	-	14,976	-	-	-	14,976	-	14,976
Revaluation surplus on buildings	*10,19*	-	-	-	-	1,503	-	-	1,503	-	1,503
Actuarial gain/(loss)	*15,19*	-	-	-	-	-	(370)	-	(370)	-	(370)
Total comprehensive income for the year		-	-	-	14,976	1,503	(370)	111,235	127,344	-	127,344
Capital increase		440,000	-	-	-	-	-	-	440,000	-	440,000
Issuances of share certificates		-	-	227	-	-	-	-	227	-	227
Transfer to legal reserves		-	-	-	-	-	-	668	668	-	668
Balances at 31 December 2017		**860,000**	**4,108**	**411**	**(5,596)**	**11,646**	**182**	**331,012**	**1,201,763**	**-**	**1,201,763**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

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

	Notes	1 January– 31 December 2017	1 January– 31 December 2016
Cash flows from operating activities			
Interest received		614,828	411,856
Interest paid		(343,390)	(198,748)
Fees and commissions received		29,184	14,008
Income from banking services		74,128	23,542
Trading income		4,940	4,445
Fees and commissions paid		(6,362)	(5,687)
Cash payments related to employee benefits and similar items		(130,602)	(112,418)
Net cash paid for other operating activities		(96,644)	(181,190)
Income taxes paid		(28,530)	(5,188)
Cash flows from operating activities before changes in operating assets and liabilities		**117,552**	**(49,380)**
Changes in operating assets and liabilities			
Trading securities		(25,415)	(5,106)
Reserve deposits at Central Bank		(329,873)	(51,834)
Loans and advances		(2,548,559)	(925,541)
Other assets		(50,496)	22,048
Deposits from banks		(383,233)	454,437
Deposits from customers		421,021	711,990
Other money market deposits		814,574	1,032,808
Other liabilities		320,555	7,513
Net cash provided by / (used in) operating activities		**(1,781,426)**	**1,246,315**
Cash flows from investing activities			
Purchases of available for sale securities		(783,547)	(1,118,973)
Proceeds from sale and redemption of available for sale securities		415,071	652,971
Proceeds from sale of assets to be disposed of		974	159
Purchases of tangible assets	*10*	(11,034)	(5,578)
Proceeds from the sale of tangible assets		125	34
Purchase of intangible assets	*11*	(3,466)	(2,075)
Net cash provided by / (used in) investing activities		**(381,877)**	**(473,462)**
Cash flows from financing activities			
Proceeds from funds borrowed	*14*	17,291,978	11,053,743
Repayments of funds borrowed	*14*	(14,026,595)	(10,445,443)
Net cash provided by financing activities		**3,265,383**	**608,300**
Effect of exchange rates on cash and cash equivalents		26,812	64,096
Net increase / (decrease) in cash and cash equivalents		**1,246,444**	**9,235**
Cash and cash equivalents at the beginning of year		721,925	712,690
Cash and cash equivalents at the end of year	*6*	**1,968,369**	**721,925**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

Index for notes to the consolidated financial statements

1. CORPORATE INFORMATION

General

"The Bank" was established with trade name as Tekstil Bankası A.Ş. on 24 September 1985, to carry out all types of banking activities according to the Banking Law and later changes in the laws and regulations, with the permission of the Council of Ministers in accordance with the resolution numbered 85/9890 and dated 29 April 1986 and started it operations on 13 October 1986. "Articles of Association" of the Bank was published in Turkish Trade Registry Gazette no.1511, dated 9 May 1986. The statute of the Bank was not changed since its establishment. Trade name of the Bank has been changed and registered as ICBC Turkey Bank A.Ş. on 13 November 2015.

The capital of the Bank is TL 860,000 as at 31 December 2017 and is fully paid (31 December 2016: 420,000). The Bank was incorporated by GSD Group until 21 May 2015. As at 29 April 2014, GSD Holding A.Ş., the major shareholder of the Bank, has come to conclusion to sell 75.50% shares of The Bank to Industrial and Commercial Bank of China (ICBC) and with respect to the sale transaction, it was declared to be approved by China Banking Regulatory Commission (CBRC) on 20 March 2015, and in Turkey, it was approved by Competition Authority in accordance with decision dated 20 August 2014 and numbered 14-29/593-259 and Banking Regulation and Supervision Agency (BRSA), in accordance with decision dated 2 April 2015 and numbered 6262.

Following the completion of relevant permissions with respect to the sale transaction, the Bank appealed Extraordinary General Assembly on 22 May 2015 for approving the resignation of members of Board of Directors and selecting new members on 28 April 2015 in the Public Disclosure Platform (KAP). Within the context of share purchase agreement, 22 May 2015 date was defined as share transfer date and the share transfer was carried out on this date and processed to the Bank's share ledger.

As a result of acquisition of shares representing 75.50% of Tekstil Bankası A.Ş., which was owned by GSD Holding A.Ş., an obligation occurs to propose take-over bids in order to purchase the shares of other shareholders in accordance with the provision of Article 11 of Take-Over Bids Communique numbered II-26.1 of Capital Markets Board of Turkey related to mandatory bid. In this context, share ownership of ICBC in the Bank has risen to 92.82% from 75.50% as a result of mandatory bid call transactions ending as at 14 August 2015 realized in accordance with the Take-Over Bids Communique numbered Serial II. 26.1 by ICBC, which is controlling shareholder of the Bank.

In accordance with the decision of the general extraordinary meeting of the Bank dated 9 February 2017, the Bank's capital has decided to increase and the decision was registered by İstanbul Trade Registry Office at 29 June 2017. At this content, the Bank's capital has increased in cash amounting to TL 440,000 from TL 420,000 to TL 860,000 and the whole increase was made in cash. With this increase, ICBC's shareholding ratio at the Bank has increased from 92.82% to 92.84%.

The shares, except for the shares owned by ICBC, are traded at Istanbul Stock Exchange (BIST).

In the context of the decision taken at the Extraordinary General Meeting on 5 November 2015, the Bank's trade title has been changed and registered as ICBC Turkey Bank A.Ş. at the Trade Registry Gazette on 13 November 2015.

The registered office address of the Bank is located at Maslak Mahallesi Dereboyu/2 Caddesi, No. 13, Sarıyer 34398 Istanbul/Turkey.

Nature of Activities of the Bank / Group

For the purposes of the consolidated financial statements, the Bank and its subsidiaries are together referred to as "the Group".

The operations of the Group consist of corporate, commercial and retail banking services, international transactions and securities trading in capital markets.

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

1. CORPORATE INFORMATION (continued)

The information related to the subsidiaries included in consolidation and effective shareholding percentages of the Group at 31 December 2017 is as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding And Voting Rights (%)	
ICBC Turkey Yatırım Menkul Değerler A.Ş. ("ICBC Yatırım")	Istanbul/Turkey	Brokerage	99.998	99.998
ICBC Turkey Portföy Yönetimi A.Ş. ("ICBC Portföy")(*)	Istanbul/Turkey	Portfolio Management	100.000	100.000

(*) ICBC Yatırım participated in ICBC Turkey Portföy Yönetimi A.Ş. (ICBC Portföy) company with 100% share in April 2015.

As at 31 December 2017, the Bank has 44 branches located close to industrial zones of Turkey (31 December 2016: 44 branches). As at 31 December 2017 and 2016, the number of employees are:

	2017	2016
The Bank	810	809
Subsidiaries	97	84
Total	**907**	**893**

The consolidated financial statements as at and for the year ended 31 December 2017 have been approved on 28 February 2018 by the Group's management. Authorised boards of the Bank and other regulatory bodies have the power to amend the statutory financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared from statutory financial statements of the Bank and its subsidiaries in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for the following material items in the statement of financial position which are measured at fair value:

- derivative financial instruments
- financial instruments at fair value through profit or loss
- available-for-sale financial instruments
- buildings recorded under tangible assets

The consolidated financial statements have been initially prepared in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" published in the Official Gazette no.26333 dated 1 November 2006 with regard to Banking Law No. 5411, and in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the "Banking Regulation and Supervision Agency" ("BRSA"), and in case where a specific regulation is not made by BRSA, "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") and related appendices and interpretations (all "Turkish Accounting Standards" or "TAS") put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA"). The subsidiaries maintain their books of accounts based on statutory rules and in accordance with Turkish Commercial Code, Capital Markets Board and Tax Regulations. Consolidated financial statements are derived from statutory financial statements with adjustments and reclassification for the purpose of fair presentation in accordance with IFRS.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Presentation (continued)

Functional and Presentation Currency of the Bank and Its Subsidiary:

The Bank's, ICBC Yatırım's, and ICBC Portföy's functional and presentation currency is TL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of TL. Turkish Kurus (Kr), which is used in presentation of earnings per share, equals 0.01 Turkish Lira.

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

New and revised International Accounting Standards effective for annual periods beginning on or after 1 January 2017 have no material effect on the financial statements, financial performance and on the Bank's accounting policies and accounting estimates. IFRS 9 will be effective from periods beginning on or after 1 January 2018. The Bank completed the work in order to comply with IFRS 9 standard. Equity effect of application of IFRS 9 standard is TL 47,764 and the related studies are summarized in Note 2.24 Other disclosures.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

(a) Impairment of available-for-sale equity investments:

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry performance, changes in technology and operational and financing cash flows.

(b) Impairment on tangible assets:

After recognition, the Group assesses the recoverable amount of its tangible assets. At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The Group provides appraisal reports of property from third party appraisers commissioned by BRSA and Capital Markets Board for determination of fair values of property at the period ends.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant Accounting Judgments, Estimates and Assumptions (continued)

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

(a) Impairment Losses on Loans and Advances:

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

(b) Fair Values of Derivatives and Other Financial Instruments:

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 5.

(c) Income Taxes:

The Bank and its subsidiaries, ICBC Yatırım and ICBC Portföy, are subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax provisions and deferred tax in the period in which such determination is made.

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

(d) Employee Termination Benefits:

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these benefits, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures

The Group has consistently applied the accounting policies to all periods presented in these financial statements.

The accounting policies adopted in the preparation of the financial statements as at 31 December 2017 are consistent with those followed in the preparation of the financial statements of the prior year, except for the new standards and amendments to standards, including any consequential amendments to other standards summarized in related notes.

New standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments

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

Project to comply with IFRS 9 has been completed. The Group recognized an adjustment to opening equity balance to reflect new requirements of classification and measurement and impairment as of 1 January 2018. Furthermore, in accordance with IFRS 9, the Group calculated deferred tax on the stage one and two credit losses and the effect of calculated deferred tax asset reflected to equity during the first transition period.

IFRS 15 Revenue from Contracts with customers

The new standard replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The impact of implementing IFRS 15 is expected to be insignificant.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet adopted (continued)

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On 8 December 2016, IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect that application of these amendments to IFRS 2 will have significant impact on its financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 "First Time Adoption of International Financial Reporting Standards"

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of 'Annual Improvements to IFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

IFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

IAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December 2017 and 2016.

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

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

In the full consolidation method, 100% of subsidiary’ assets, liabilities, income, expense and off-balance sheet items are combined with the Bank’s assets, liabilities, income, expense and off-balance sheet items. The carrying amount of the Group’s investment in the subsidiary and the Group’s portion of the cost value of the capital of the subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Non-controlling interests in the net income of consolidated subsidiary shall be identified and adjusted against the income of the Group in order to arrive at the net income attributable to the shareholders of the parent of the Group and presented separately in the Group’s income statement. The Group has non-controlling interests due its subsidiary ICBC Yatırım’s minor shareholders (0.002% share) whose interests are immaterial to be presented in the consolidated financial statements.

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

2.5 Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of financial position. All differences are taken to the profit or loss.

Foreign currency translation rates for major currencies used by the Group as at respective year-ends are as follows:

	Euro / TL (full)	**US Dollar / TL (full)**
31 December 2015	3.1776	2.9076
31 December 2016	3.6939	3.5318
31 December 2017	4.5478	3.8104

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Tangible Assets

Owned Assets

The cost of the tangible assets purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to International Accounting Standards ("IAS") 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, tangible assets are carried at cost, less accumulated depreciation and impairment losses, if any except for buildings. Where the carrying amount of an asset is greater than its estimated recoverable amount ("higher of net realizable value and value in use"), it is written down immediately to its recoverable amount. Buildings are recorded at the fair value and the amounts over carrying value of the buildings are recorded as revaluation surplus under the shareholders' equity. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends. The fair value measurements are based on comparison of similar items method, substitution cost method and direct capitalization method.

Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the consolidated statement of profit or loss.

Subsequent Expenditures

Expenditures incurred to replace a component of tangible assets that is accounted for separately, and major inspection and overhaul costs, are capitalized. Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the consolidated statement of profit or loss as incurred.

Depreciation

Tangible assets are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition.

The estimated useful lives are as follows:

Buildings	50 years
Furniture and fixtures	3 – 50 years
Leasehold improvements	Minimum of lease period or useful life

Gains and losses on disposal of tangible assets are determined by comparing net proceeds with the carrying amount and recognized in other income/expense in the income statement.

Leasehold improvements comprise primarily capitalized head quarter and branch refurbishment costs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible Assets

Intangible assets acquired separately from a business are capitalized at the restated cost until 31 December 2005. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful life of 3 – 15 years. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss when the asset is derecognized.

2.8 Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held to maturity financial assets. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment Securities and Other Financial Assets (continued)

Financial Assets at Fair Value through Profit or Loss

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated statement of profit or loss and other comprehensive income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in the consolidated statement of profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

Available-for-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial recognition, available for sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of profit or loss. However, interest calculated on available for sale financial assets using effective interest method is reported as interest income, and dividends are included in dividend income when the entity's right to receive payment is established.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the date of the statement of financial position. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used.

Held to Maturity Financial Assets

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. Interest earned with holding held to maturity securities is reported as interest income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are classified in the consolidated financial statements within the security portfolio they belong to. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ('reverse repos') are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

2.10 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.11 Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its consolidated statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, that are recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss and other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with original maturities of three months or less.

2.13 Impairment of Financial Assets

Assets Carried at Amortized Cost

The Group assesses at each date of statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data coming to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
(c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the consolidated statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured also taking into account the collateral amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of Financial Assets (continued)

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the consolidated statement of profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in the consolidated statement of profit or loss.

Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available for Sale Financial Assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of profit or loss, is transferred from equity to the consolidated statement of profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of profit or loss and other comprehensive income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in consolidated statement of profit or loss.

2.14 Interest Bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Employee Benefits

(a) Reserve for employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

In addition, in accordance with existing social legislation in Turkey, the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(b) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short term employee benefits include vacation pay liability. In Turkey, according to the legislation, the employer has to make payments for unused vacation days when the personnel leave the company. Vacation pay liability is the undiscounted amount calculated over the unused vacation days of the employee.

(c) Defined contribution plans

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

2.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Leases

The Group as Lessee

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.18 Income and Expense Recognition

Interest income and expense are recognized in the consolidated statement of profit or loss for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and dividends.

Dividends are recognized when the shareholders' right to receive the payments is established.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Income Tax

Tax expense (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the date of financial position.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income tax relating to items recognized directly in equity is recognized in equity.

2.20 Derivative Financial Instruments

The Group enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative 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. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the consolidated statement of profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Derivative Financial Instruments (continued)

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

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

2.21 Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

2.22 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

2.23 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Other Disclosures

IFRS 9 Financial Instruments

In January 2017, Public Oversight Accounting and Auditing Standards Authority ("POA") published the final version of IFRS 9 which replaces IAS 39. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. In this context, it became compulsory for banks to adopt IFRS 9 effective from 1 January 2018 based on the regulation published in the Official Gazette no. 29750 dated 22 June 2016 in connection with procedures and principals regarding classification of loans and allowances allocated for such loans.

During 2017, the Bank conducted an extensive project to implement IFRS 9 with the participation of finance, risk, technology, economic research departments and business areas. In this project, the definition of the processes regarding implementation of the corresponding accounting policies and standards has been established and necessary preparations in connection with the presentation of the financial statements have been made.

The impact assessment regarding three phases of IFRS 9 is explained below:

Classification and Measurement of Financial Instruments

Financial Assets

IFRS 9 contains a new approach regarding the classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. IFRS 9 contains three main categories of classification for financial assets: valued at amortized cost, valued at fair value with changes in other comprehensive income, and valued at fair value through profit or loss.

It is anticipated that the financial assets valued at fair value through profit or loss will continue to be measured at fair value. On the other hand, there might be classifications among the financial assets classified as financial assets valued at amortized cost or valued at fair value with changes in other comprehensive income depending on the characteristics of their business models.

Loans and receivables are held to collect contractual cash flows and such cash flows consist of principal and interest collections. The Bank analysed contractual cash flow characteristics of these financial instruments and decided to classify such instruments as financial assets valued at amortised cost. Accordingly, it shall not be possible to classify these financial instruments into a different category.

Based on the analysis carried out up until today, the Bank, has been evaluating of impact regarding accounting of financial assets based on the scope of IFRS 9.

Financial Liabilities

IFRS 9 maintains the requirements in IAS 39 for the classification of financial liabilities except for allowing accounting of the fair value changes occurred as a result of changes in a financial liability's own credit risk under other comprehensive income for the liabilities designated for fair value option (applicable for instances not affecting the accounting mismatch at large extent). The Bank, has been evaluating of impact regarding accounting of financial liabilities based on the scope of IFRS 9.

Impairment

IFRS 9 replaces the "incurred losses" model in IAS 39 with a model of "expected credit loss". The new standard establishes three stages impairment model (general model) based on the change in credit quality subsequent to initial recognition.

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Other Disclosures (continued)

Impairment (continued)

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

The matters which have the most significant impact on IFRS 9 implementation and may change impairment calculations considerably are presented below:

- Assessment of under which conditions there may be significant increase in credit risk
- Macroeconomic factors, forward looking information and multiple scenarios
- Maximum contractual period over which it is exposed to credit risk to be considered during measurement of expected credit losses
- Definition of default

The Bank completed the work in order to comply with IFRS 9 standard. As of 1 January 2018, equity effect of application of IFRS 9 standard is TL 47,764, net of tax.

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

3. SEGMENT INFORMATION

Operating Segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations in each of the Group's reportable segments:

- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers.
- *Corporate & SME Banking* — Includes loans, deposits and other transactions and balances with corporate and SME customers.
- *Other Operations* — Includes funds management and treasury activities.

Segment information at and for the year ended 31 December 2017 is as follows:

	Retail Banking	Corporate, Commercial & SME Banking	Treasury, Investment Banking and Other Operations	Total
Operating income	72,489	177,796	130,560	380,845
Operating expenses	(49,606)	(65,982)	(121,821)	(237,409)
Income/loss from operations	**22,883**	**111,814**	**8,739**	**143,436**
Taxation charge	-	-	(32,201)	(32,201)
Net income for the period	**22,883**	**111,814**	**(23,462)**	**111,235**
Assets and Liabilities				
Segment assets	858,496	6,854,101	5,588,088	13,300,685
Total assets	**858,496**	**6,854,101**	**5,588,088**	**13,300,685**
Segment liabilities	2,123,694	1,399,619	8,575,609	12,098,922
Shareholders' equity	-	-	1,201,763	1,201,763
Total liabilities and shareholders' equity	**2,123,694**	**1,399,619**	**9,777,372**	**13,300,685**
Other segment information				
Capital expenditure	-	-	7,653	7,653
Depreciation and amortization	522	420	7,217	8,159
Impairment losses on assets to be disposed of	2,235	7,887	83,895	94,017

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

3. SEGMENT INFORMATION (continued)

Segment information at and for the year ended 31 December 2016 is as follows:

	Retail Banking	Corporate, Commercial & SME Banking	Treasury, Investment Banking and Other Operations	Total
Operating income	57,772	82,482	113,409	253,663
Operating expenses	(38,139)	(62,597)	(99,784)	(200,520)
Income/loss from operations	**19,633**	**19,885**	**13,625**	**53,143**
Taxation charge	-	-	(12,311)	(12,311)
Net income for the period	**19,633**	**19,885**	**1,314**	**40,832**
Assets and Liabilities				
Segment assets	662,295	4,480,570	3,155,285	8,298,150
Total assets	**662,295**	**4,480,570**	**3,155,285**	**8,298,150**
Segment liabilities	1,764,694	1,167,585	4,732,347	7,664,626
Shareholders' equity	-	-	633,524	633,524
Total liabilities and shareholders' equity	**1,764,694**	**1,167,585**	**5,365,871**	**8,298,150**
Other segment information				
Capital expenditure	-	-	2,031	2,031
Depreciation and amortization	289	484	3,805	4,578
Impairment losses on assets to be disposed of	-	-	65	65

4. FINANCIAL RISK MANAGEMENT

General

A dedicated member of the Board of Directors is assigned as Risk Supervisor who heads the Risk Management Group. The Risk Management Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Risk Management Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Risk Management Group reviews the latest figures and projections for the Bank's profit and loss accounts and statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

4. FINANCIAL RISK MANAGEMENT (continued)

Audit Committee

The Audit Committee consists of two members of the Board of Directors. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- the supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- the preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- the maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

Credit Risk

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports these control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically concerning several criteria such as financial power of customers, business capacity, industry, geographical segment and equity structure and with taking notice of the financial statements of the debtors obtained thoroughly to be audited in accordance with the relevant legislation.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity is performed daily. The risk concentration of the off-balance sheet transactions is followed up using the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Exposure to credit risk:

	31 December 2017				31 December 2016			
	Loans to customers	**Balances with Central Bank**	**Due from banks(**)**	**Investment securities**	**Loans to customers**	**Balances with Central Bank**	**Due from banks(**)**	**Investment securities**
Assets amortised at cost								
Individually impaired								
Loans and receivables with limited collectibility	201	-	-	-	1,095	-	-	-
Loans and receivables with doubtful collectibility	5,638	-	-	-	16,571	-	-	-
Uncollectible loans and receivables	90,684	-	-	-	97,487	-	-	-
Gross Amount	96,523	-	-	-	115,153	-	-	-
Allowance for individual impairment	(72,147)	-	-	-	(79,170)	-	-	-
Carrying amount	**24,376**	**-**	**-**	**-**	**35,983**	**-**	**-**	**-**
Loans with renegotiated terms	264,353	-	-	-	158,357	-	-	-
Carrying amount	**264,353**	**-**	**-**	**-**	**158,357**	**-**	**-**	**-**
Past due but not impaired								
High and standard grade	13,502	-	-	-	17,325	-	-	-
Closely monitored	16,370	-	-	-	15,297	-	-	-
Carrying amount	**29,872**	**-**	**-**	**-**	**32,622**	**-**	**-**	**-**
Neither past due not impaired								
High and standard grade	7,322,171	1,313,845	1,614,567	-	4,862,782	1,094,711	226,212	-
Closely monitored	40,049	-	-	-	8,362	-	-	-
Carrying amount	**7,362,220**	**1,313,845**	**1,614,567**	**-**	**4,871,144**	**1,094,711**	**226,212**	**-**
Collective allowance for impairment	(18,595)	-	-	-	(13,085)	-	-	-
Carrying amount	**(18,595)**	**-**	**-**	**-**	**(13,085)**	**-**	**-**	**-**
Available for sale assets								
Individually impaired	-	-	-	-	-	-	-	-
Allowance for impairment	-	-	-	-	-	-	-	-
Neither past due nor impaired(*)	-	-	-	1,984,903	-	-	-	1,535,694
Carrying amount	**-**	**-**	**-**	**1,984,903**	**-**	**-**	**-**	**1,535,694**
Total carrying amount	**7,662,226**	**1,313,845**	**1,614,567**	**1,984,903**	**5,085,021**	**1,094,711**	**226,212**	**1,535,694**

(*) Excluding equity securities.

(**) Including deposits from bank, cash collateral on reverse purchase agreements and money market placements.

The above table represents the credit risk exposure of the Group at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off with the approval of the Board of Directors after all the necessary procedures have been completed and the amount of the loss has been determined.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk extent.

	Loans and advances to customers	
31 December 2017	**Gross**	**Net**
Loans and Receivables with Limited Collectibility	201	150
Loans and Receivables with Doubtful Collectibility	5,638	547
Uncollectible Loans and Receivables	90,684	23,679
Total	**96,523**	**24,376**

31 December 2016	**Gross**	**Net**
Loans and Receivables with Limited Collectibility	1,095	789
Loans and Receivables with Doubtful Collectibility	16,571	2,534
Uncollectible Loans and Receivables	97,487	32,660
Total	**115,153**	**35,983**

As at 31 December 2017 and 2016, the Group has no allowance for other assets such as loans and advances to banks, money market placements and marketable securities. As at 31 December 2017 the Group has provided TL 1,416 (31 December 2016: TL 199) impairment for 'assets to be disposed of' recorded under other assets.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The breakdown of cash and non-cash loans and advances to customers by type of collateral is as follows:

Cash Loans	**31 December 2017**	**31 December 2016**
Secured loans:	50,235	3,478,249
Secured by mortgages	-	886,849
Secured by cash collateral	-	1,103,715
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	50,235	1,487,685
Unsecured loans	7,606,210	1,583,874
Impaired loans, net	5,781	22,898
Total	**7,662,226**	**5,085,021**

Non-cash Loans	**31 December 2017**	**31 December 2016**
Secured loans:	661,396	846,098
Secured by mortgages	155,167	9,759
Secured by cash collateral	17,467	127,401
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	488,762	708,938
Unsecured loans	1,127,787	544,033
Total	**1,789,183**	**1,390,131**

The breakdown of non-performing loans and receivables based on the types of collaterals held against them is as follows:

	31 December 2017	**31 December 2016**
Secured by mortgages	-	39,280
Pledge on vehicles and other collateral	-	3,156
Unsecured	96,523	72,717
Total	**96,523**	**115,153**

The collateral amounts on the table above represent the minimum of the fair value of the collateral or the amount of non-performing loan against which the collateral acquired.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. Industry exposure information of biggest thirteen business sector for aggregate cash loans and non-cash loans is as follows:

	31 December 2017		31 December 2016	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Finance	2,656,337	439,459	1,532,012	207,862
Service	729,604	303,575	129,416	464,150
Transportation, warehousing and communication	702,596	146,908	774,447	25,761
Electric, gas and water	548,879	15,371	175,340	51,830
Construction	495,238	357,390	351,433	339,503
Wholesale and retail commerce and motor vehicle services	400,304	47,309	377,563	66,609
Food and beverages and tobacco	260,313	11,466	157,816	14,446
Agriculture, fishing and forestry	128,888	772	308,106	2,845
Chemical Industry	81,384	7,853	26,706	9,097
Textile, fabrics and yarn industry	61,819	19,232	36,378	14,205
Iron steel and metal processing	41,799	43,642	65,600	46,999
Mining and stone pits	14,451	1,347	170,396	4,148
Others	685,043	394,859	278,171	142,676
Corporate loans	6,806,655	1,789,183	4,383,384	1,390,131
Consumer loans and credit cards	849,509	-	650,697	-
Specialized loans	243	-	1,339	-
Investment loans	38	-	26,703	-
Loans in arrears	96,523	-	115,153	-
Provision for possible loan losses	(90,742)	-	(92,255)	-
Total	**7,662,226**	**1,789,183**	**5,085,021**	**1,390,131**

Breakdown of non-performing loans is shown below:

	31 December 2017	**31 December 2016**
Corporate loans	82,036	95,871
Consumer loans	11,356	14,452
Credit cards	2,127	3,826
Specialized loans	163	163
Investment loans	841	841
Total non-performing loans	**96,523**	**115,153**

The Group's activities are mainly concentrated in Turkey. As at 31 December 2017, 90% of cash loan portfolio including non-performing loans are granted in Turkey (31 December 2016: 75% in Turkey). Regarding foreign lending, the Group has a structure evaluating the country and market risks of the countries of counterparties. Besides, the outstanding foreign loan transactions of the Group are majorly loans given against cash collateral.

As at 31 December 2017, the share of the Group's receivables from its top 100 cash credit customers in its total cash loan portfolio is 82% (31 December 2016: 81%).

As at 31 December 2017, the share of the Group's receivables from its top 100 non-cash customers in its total non-cash loan portfolio is 88% (31 December 2016: 97%).

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the BIST (Borsa Istanbul) Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the statement of financial position, the maximum limits have been set by the Board of Directors.

The Bank diversifies its funding with steady deposit base and medium/long-term funds borrowed from international institutions which are mainly placed in interest earning assets. Deposits are obtained from individuals and corporate/commercial entities. The portion of saving deposits over total deposits is 63% as at 31 December 2017 (31 December 2016: 61%). The Bank performs customer concentration analysis on a branch basis and takes short and long term actions to disseminate customers in the branches with concentration risk. Funds borrowed account consists of funds with different characteristics and maturity-interest structures and are provided from different reputable institutions.

Residual contractual maturities of financial liabilities:

31 December 2017	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Due to banks	71,241	71,241	71,241	-	-	-	-	-
Deposits	3,273,860	3,349,295	547,011	2,214,675	560,813	26,787	9	-
Other money market deposits	1,149,966	1,173,354	-	637,113	-	-	536,241	-
Funds borrowed	6,988,038	6,979,034	-	1,341,724	765,033	2,240,478	2,631,799	-
								-
Total	**11,483,105**	**11,572,924**	**618,252**	**4,193,512**	**1,325,846**	**2,267,265**	**3,168,049**	**-**
Non-cash loans(*)	**1,789,183**	**1,789,183**	**643,783**	**117,396**	**28,151**	**596,108**	**403,206**	**539**

31 December 2016	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Due from banks	454,474	495,250	92,672	265,724	134,028	2,827	-	-
Deposits	2,850,077	3,105,791	581,162	1,666,394	840,508	17,726	-	-
Other money market deposits	334,785	339,215	-	-	168,213	-	171,002	-
Funds borrowed	3,771,835	3,776,337	-	1,154,284	410,314	1,308,636	903,103	-
								-
Total	**7,411,171**	**7,716,593**	**673,834**	**3,086,402**	**1,553,063**	**1,329,189**	**1,074,105**	**-**
Non-cash loans(*)	**1,390,131**	**1,390,131**	**541,490**	**95,935**	**149,563**	**183,889**	**273,949**	**145,305**

(*) The letter of guarantees without a defined maturity date due to their business nature are presented at demand column.

The contractual maturity distribution of derivative contracts are presented in Note 17.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at date of financial position to contractual maturity date.

	On Demand	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 Months	1 to 5 Years	Over 5 Years	No maturity	Total
As at 31 December 2017									
Assets									
Cash and balances with Central Bank	359,713	990,758	-	-	-	-	-	-	1,350,471
Due from banks	1,139,282	434,430	31,255	-	-	-	-	-	1,604,967
Money market placements	-	9,600	-	-	-	-	-	-	9,600
Trading securities	30,549	-	-	-	-	-	-	-	30,549
Derivative financial assets	-	353	338	49	-	-	-	-	740
Loans and advances	-	406,262	934,487	396,274	1,035,863	3,232,462	1,651,097	5,781	7,662,226
Investment securities	4,107	21,970	52	-	106,597	2,150,827	198,870	-	2,482,423
Tangible assets	-	-	-	-	-	-	-	36,765	36,765
Intangible assets	-	-	-	-	-	-	-	5,194	5,194
Deferred tax assets	-	-	-	-	-	-	15,178	-	15,178
Other assets	-	91,432	793	745	1,117	360	-	8,125	102,572
Total assets	**1,533,651**	**1,954,805**	**966,925**	**397,068**	**1,143,577**	**5,383,649**	**1,865,145**	**55,865**	**13,300,685**
Liabilities									
Due to banks	71,241	-	-	-	-	-	-	-	71,241
Deposits from customers	465,131	2,321,060	460,729	16,032	10,908	-	-	-	3,273,860
Funds borrowed	-	1,352,676	767,306	1,162,104	1,407,382	1,336,229	962,341	-	6,988,038
Derivative financial liabilities	-	11,522	2,762	-	-	-	-	-	14,284
Other money market deposits	-	1,149,966	-	-	-	-	-	-	1,149,966
Provisions	-	-	-	-	-	-	-	20,709	20,709
Employee benefits	-	-	-	-	-	-	-	15,977	15,977
Other liabilities	420,728	130,586	13,533	-	-	-	-	-	564,847
Total liabilities	**957,100**	**4,965,810**	**1,244,330**	**1,178,136**	**1,418,290**	**1,336,229**	**962,341**	**36,686**	**12,098,922**
Net liquidity gap	**576,551**	**(3,011,005)**	**(277,405)**	**(781,068)**	**(274,713)**	**4,047,420**	**902,804**	**19,179**	**1,201,763**
As at 31 December 2016									
Total assets	**599,253**	**1,137,398**	**620,469**	**825,809**	**862,092**	**2,855,811**	**1,330,561**	**66,757**	**8,298,150**
Total liabilities	**830,657**	**3,202,562**	**1,157,236**	**9,822**	**1,538,825**	**102**	**891,979**	**33,443**	**7,664,626**
Net liquidity gap	**(231,404)**	**(2,065,164)**	**(536,767)**	**815,987**	**(676,733)**	**2,855,709**	**438,582**	**33,314**	**633,524**

The liquidity analysis of the derivative transactions are presented in "Note 17. Derivatives" section.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

As per the Banking Regulation and Supervision Agency's (BRSA) Communiqué "Regulation on Liquidity Coverage Ratio Calculation" published on the Official Gazette no.28948 dated 21 March 2014 and became effective starting from 1 January 2015, liquidity coverage ratios calculated weekly on bank only basis and monthly on consolidated basis are subject to regulatory reporting. Liquidity coverage ratios for foreign currency assets/liabilities and total assets/liabilities should be minimum 40% and 60%, respectively. The Group's consolidated liquidity coverage ratios for 2017 and 2016 are as follows:

Liquidity Coverage Ratios	**FC Liquidity Coverage Ratio**	**Total Liquidity Coverage Ratio**
31 December 2017	220.55	132.48
Average (%)	182.73	129.23
Max. (%)	220.55	146.81
Min. (%)	137.85	110.85
Liquidity Coverage Ratios	**FC Liquidity Coverage Ratio**	**Total Liquidity Coverage Ratio**
31 December 2016	89.05	92.31
Average (%)	99.48	105.44
Max. (%)	138.46	150.5
Min. (%)	89.05	92.31

Market Risk

The Bank has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 1 November 2006.

"General market risk" is the risk of loss composed of "interest rate risk", "position risk of equity securities" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the amount, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

"Value at Risk" is calculated on a daily basis by employing Standard Method, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results are reported to the Senior Level Risk Committee and ALCO in regular periods. By regarding the VaR results, the risk of maturity mismatch is examined in the ALCO and the necessary measures are taken by the ALCO.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Standard method defined in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in Official Gazette no. 29111 dated 6 September 2014 is used in calculating the market risk. The criteria for the standard method have been set by the BRSA via section 2 of "Calculation of Market Risk" and "Communiqué on Capital Requirement Calculation for Market Risk arising from Options". Consolidated and bank only market risk is reported to BRSA on a monthly basis. The consolidated value at market risks calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes are as follows:

	2017			
	As at 31 December 2017	**Average**	**Highest**	**Lowest**
Interest rate risk	-	339	438	24
Equity securities risk(*)	649	1,167	1,953	267
Currency risk	1,330	3,631	19,986	811
Settlement risk	-	-	-	-
Option risk	-	-	-	-
Counterparty credit risk(**)	-	-	-	-
Total value at risk(***)	**24,738**	**64,213**	**279,713**	**13,775**

	2016			
	As at 31 December 2016	**Average**	**Highest**	**Lowest**
Interest rate risk	32	136	312	-
Equity securities risk(*)	1,679	1,800	3,577	180
Currency risk	6,176	1,532	6,176	141
Settlement risk	-	-	8	-
Option risk	-	-	6	-
Counterparty credit risk(**)	-	130	815	-
Total value at risk(***)	**98,588**	**44,975**	**136,175**	**4,013**

(*) VaR for mutual funds in trading securities are included here.

(**) Represents counterparty credit risk for only trading accounts.

(***) The minimum and maximum values of Total VaR represent the minimum and maximum values of quarter-end (month-end beginning from July 2016) calculated total VaRs, and are not related to the aggregate of the components of them stated in the table.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net position in foreign currencies, mostly in US Dollar and Euro.

The Group's foreign currency position risk is measured by "Standard Method" and Internal Models.

The concentrations of assets, liabilities and off balance sheet items are as follows:

As at 31 December 2017	Turkish Lira	US Dollars	Euro	Others	Total
Assets					
Cash and balances with Central Bank(**)	103,390	1,235,058	11,435	588	1,350,471
Due from banks	285	918,044	680,841	5,797	1,604,967
Money market placements	9,600	-	-	-	9,600
Trading securities	30,549	-	-	-	30,549
Loans and advances	3,544,276	3,004,863	1,109,964	3,123	7,662,226
Investment securities – Available for Sale	907,478	1,077,560	3,972	-	1,989,010
Investment securities – Held to Maturity	205,029	288,384	-	-	493,413
Tangible assets	36,765	-	-	-	36,765
Intangible assets	5,194	-	-	-	5,194
Deferred tax asset	15,178	-	-	-	15,178
Other assets	77,360	19,087	6,103	22	102,572
Total assets(*)	**4,935,104**	**6,542,996**	**1,812,315**	**9,530**	**13,299,945**
Liabilities					
Due to banks	69,980	205	-	1,056	71,241
Deposits	1,431,071	1,023,923	808,779	10,087	3,273,860
Other money market deposits	1,149,966	-	-	-	1,149,966
Funds borrowed	6,614	6,794,996	183,338	3,090	6,988,038
Provisions	36,686	-	-	-	36,686
Other liabilities (****)	137,090	37,000	390,591	166	564,847
Total liabilities(*)	**2,831,407**	**7,856,124**	**1,382,708**	**14,399**	**12,084,638**
Net on-balance sheet position	**2,103,697**	**(1,313,128)**	**429,607**	**(4,869)**	**1,215,307**
Off-balance sheet position					
Net notional amount of derivatives(***)	(13,543,032)	1,325,368	(428,329)	4,996	(12,640,997)
Net Position	**(11,439,335)**	**12,240**	**1,278**	**127**	**(11,425,690)**
As at 31 December 2016					
Total assets(*)	2,965,555	4,573,993	751,528	5,520	8,296,596
Total liabilities(*)	2,497,972	4,693,290	461,486	11,087	7,663,835
Net on-balance sheet position	467,583	(119,297)	290,042	(5,567)	632,761
Off-balance sheet position	763,459	100,413	(213,665)	6,360	656,567
Net Position	**1,231,042**	**(18,884)**	**76,377**	**793**	**1,289,328**

(*) The amounts recorded as derivative financial instruments on asset and liability sides are not included above.

(**) As at 31 December 2017, the Group has no precious metal standing in Central Bank of Turkey accounts is consolidated in 'Others' column above (31 December 2016: None).

(***) As at 31 December 2017, the Group has no precious metal swap sales transactions consolidated in 'Others' column above (31 December 2016: None).

(****) Other liabilities include income tax payables.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at 31 December 2017 and 2016 would have decreased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2017		31 December 2016	
	Profit or loss	Equity(*)	Profit or loss	Equity(*)
US Dollar	1,096	1,313	10	(1,888)
Euro	128	128	7,638	7,638
Other currencies	26	26	80	80
Total, net	**1,250**	**1,467**	**7,728**	**5,830**

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

Cash Flow and Fair Value Interest Rate Risk

"Interest rate risk" is the probability of loss due to changes in interest rates depending on the Group's position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the date of statement of financial position to the re-pricing date:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2017								
Assets								
Cash and balances with Central Bank	-	1,313,816	-	-	-	-	36,655	1,350,471
Due from banks	465,685	-	-	-	-	-	1,139,282	1,604,967
Money market placements	9,600	-	-	-	-	-	-	9,600
Trading securities	-	-	-	-	-	-	30,549	30,549
Derivative financial instruments	353	338	49	-	-	-	-	740
Loans and advances	654,017	2,688,453	458,250	958,267	1,697,177	1,200,281	5,781	7,662,226
Investment securities	288,603	518,786	-	188,188	1,283,869	198,870	4,107	2,482,423
Total financial assets	**1,418,258**	**4,521,393**	**458,299**	**1,146,455**	**2,981,046**	**1,399,151**	**1,216,374**	**13,140,976**
Tangible assets	-	-	-	-	-	-	36,765	36,765
Intangible assets	-	-	-	-	-	-	5,194	5,194
Deferred tax asset	-	-	-	-	-	-	15,178	15,178
Other assets	-	-	-	-	-	-	102,572	102,572
Total assets	**1,418,258**	**4,521,393**	**458,299**	**1,146,455**	**2,981,046**	**1,399,151**	**1,376,083**	**13,300,685**
Liabilities								
Due to banks	-	-	-	-	-	-	71,241	71,241
Deposits	2,321,060	460,729	16,032	10,908	-	-	465,131	3,273,860
Other money market deposits	1,149,966	-	-	-	-	-	-	1,149,966
Derivative financial instruments	14,284	-	-	-	-	-	-	14,284
Funds borrowed	1,352,676	767,306	1,162,004	1,407,482	1,336,229	962,341	-	6,988,038
Other liabilities	-	-	-	-	-	-	564,847	564,847
Provisions and employee benefits	-	-	-	-	-	-	36,686	36,686
Total liabilities	**4,837,986**	**1,228,035**	**1,178,036**	**1,418,390**	**1,336,229**	**962,341**	**1,137,905**	**12,098,922**
Interest sensitivity gap	**(3,419,728)**	**3,293,358**	**(719,737)**	**(271,935)**	**1,644,817**	**436,810**	**238,178**	**1,201,763**
As at 31 December 2016								
Total assets	**857,367**	**2,273,831**	**864,832**	**755,260**	**2,492,035**	**767,771**	**287,054**	**8,298,150**
Total liabilities	**3,145,755**	**1,151,694**	**9,822**	**1,538,878**	**-**	**891,979**	**926,498**	**7,664,626**
Interest sensitivity gap	**(2,288,388)**	**1,122,137**	**855,010**	**(783,618)**	**2,492,035**	**(124,208)**	**(639,444)**	**633,524**

The following table indicates the effective interest rates by major currencies for the major components of the statement of financial position as at 31 December 2017 and 2016:

31 December 2017	**EURO %**	**USD %**	**YEN%**	**TL %**
Assets				
Cash and Balances with the Central Bank of Turkey	-	1.30	-	3.94
Due from banks	-	2.73	-	-
Money Market Placements	-	-	-	-
Investment Securities – Available-for-Sale	-	4.45	-	13.69
Loans	3.45	4.14	6.04	14.39
Investment Securities – Held to Maturity	-	5.59	-	2.67
Liabilities				
Due to banks	-	-	-	-
Deposits	1.72	3.45	-	14.81
Obligations under repurchase agreements	-	-	-	13.57
Funds Borrowed	0.07	2.52	-	6.74

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

4. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

31 December 2016	EURO %	USD %	YEN%	TL %
Assets				
Cash and Balances with the Central Bank of Turkey	-	0.51	-	2.94
Due from banks	-	0.84	-	-
Money Market Placements	-	-	-	-
Investment Securities – Available-for-Sale	-	4.45	-	9.67
Loans	3.58	3.99	6.04	12.95
Investment Securities – Held to Maturity	-	5.13	-	-
Liabilities				
Due to banks	0.01	-	-	-
Deposits	1.41	3.37	-	11.98
Obligations under repurchase agreements	-	2.24	-	8.57
Funds borrowed	0.40	1.84	-	6.64

In accordance with the BRSA's "Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method", published in the Official Gazette numbered 28034 and dated 23 August 2011, the interest rate risk of the banking book items (items other than trading accounts) is measured and reported monthly to BRSA. The interest rate risks of financial instruments on trading portfolio are considered within the scope of the market risk.

In accordance with the "Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method", for unconsolidated statutory accounts of the Bank, economic valuation differences arising from fluctuations in interest rates, in different currencies are presented in the table below (excluding tax effect) as of 31 December 2017 and 2016.

31 December 2017	Shocks Applied (+/-basis points)	Gains/(Losses)	Gains/Equity-(Losses/Equity)
TL	500	(201,046)	(16.9)%
	(400)	191,432	16.1%
Euro	200	(25,916)	(2.2)%
	(200)	3,425	0.3%
US Dollar	200	24,354	2.0%
	(200)	(29,474)	(2.5)%
Total (of negative shocks)		**(202,608)**	**13.9%**
Total (of positive shocks)		**165,383**	**(17.0)%**

31 December 2016	Shocks Applied (+/-basis points)	Gains/(Losses)	Gains/Equity-(Losses/Equity)
TL	500	(114,392)	(10.8)%
	(400)	110,172	10.4%
Euro	200	(5,730)	(0.5)%
	(200)	-	-
US Dollar	200	6,726	(0.6)%
	(200)	(22,815)	(2.1)%
Total (of negative shocks)		**87,357**	**8.3%**
Total (of positive shocks)		**(113,396)**	**(11.9)%**

4. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the "Computation of the Operational Risk" of the circular, "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette numbered 29111 and dated 6 September 2014, using gross profit of the last four years 2014, 2015, 2016 and 2017 by using "Basic Indicator Approach" method. Value at operational risk, used in calculation of capital adequacy ratio, is amounting to TL 386,460. The 8% of VaR; TL 30,917 as at 31 December 2017 represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

Capital Adequacy

BRSA sets and monitors capital requirements for the Bank both on unconsolidated and consolidated basis. Additionally, the consolidated subsidiaries; ICBC Yatırım and ICBC Portföy are supervised by Turkish Capital Market Board regarding capital adequacy ratios and related calculations.

Capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques" published in the Official Gazette numbered 29111 dated 6 September 2014, "Communiqué on Capital Requirement Calculation for Market Risk of Options" published in the Official Gazette numbered 28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette numbered 28756 dated 5 September 2013.

In the calculation of consolidated capital adequacy standard ratio, the accounts and transactions are evaluated by taking into account the relevant legislation. Accounts and transactions are classified in two separate portfolio as "trading accounts" and "banking accounts" and are used in the calculation of market and credit risks. Trading accounts and items deducted from the capital are not considered in the calculation of credit risks. In the calculation of risk weighted assets, amortized and impaired assets are accounted by net amounts after deducting the related amortization and provision amounts.

In the calculation of the amount subject to credit risk, the Group assesses its loans and receivables by taking the risk classes, rating notes and risk mitigation into consideration. "Simple financial collateral method" is used for banking accounts while "comprehensive financial collateral method" is used for trading accounts for taking risk mitigation elements into consideration.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy (continued)

Counterparty Credit Risk is calculated for derivative transactions, repo transactions, security-stock lending transactions, overdraft security transactions and long term trade transactions.

In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. The Bank and its subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, fair value reserve relating to unrealized gains on securities classified as available-for-sale, revaluation surplus on buildings, actuarial gain/losses and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general loan loss provision calculated and recorded in accordance with BRSA standards.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

The regulatory capital and the capital adequacy ratio declared by the Bank as at 31 December 2017 are as follows:

31 December 2017	Consolidated	Bank Only
Amount subject to credit risk (I)	8,281,445	7,902,992
Amount subject to market risk (II)	24,738	5,163
Amount subject to operational risk (III)	386,460	356,473
Total Risk-weighted assets and value at market risk and operational risk (I+II+III)=(IV)	**8,692,643**	**8,264,628**
Tier 1 Capital	1,104,312	1,086,574
Tier 2 Capital	104,344	104,344
Deductions from Capital	(96)	(96)
Total Regulatory Capital	**1,208,560**	**1,190,822**
Total regulatory capital expressed as a percentage of total risk-weighted assets and value at risks	**13.90%**	**14.41%**

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
31 December	**2017**	**2016**	**2017**	**2016**
Financial assets				
Due from banks	1,604,967	221,449	1,604,967	221,449
Money market placements	9,600	4,763	9,600	4,763
Loans and advances	7,662,226	5,085,021	7,635,082	5,082,053
	9,276,793	**5,311,233**	**9,249,649**	**5,308,265**
Financial liabilities				
Due to banks	71,241	454,474	71,241	454,474
Deposits	3,273,860	2,850,077	3,349,295	2,849,923
Funds borrowed	6,988,038	3,771,835	6,979,034	3,781,079
	10,333,139	**7,076,386**	**10,399,570**	**7,085,476**

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

Deposits with other banks and financial institutions and money market receivables

Fair values of deposits with other banks and financial institutions and money market receivables are considered to approximate their respective carrying values due to their short-term nature.

Loans and Advances

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents 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.

Deposits and Funds Borrowed

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest bearing deposits, are the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central Bank, other money market placements, reserve deposits and other money market deposits are considered to approximate their respective carrying values due to their short-term nature.

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy

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

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

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

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

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as at 31 December 2017 and 2016, is given in the tables below:

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Share certificates	28	-	-	28
Investment securities - available for sale				
Share certificates	-	-	4,107	4,107
Turkish government bonds	907,318	-	-	907,318
Eurobonds issued by the Turkish government	369,973	-	-	369,973
Other debt securities	-	707,612	-	707,612
Derivative financial assets	-	740	-	740
Total assets carried at fair value	**1,277,319**	**708,352**	**4,107**	**1,989,778**
Derivative financial liabilities	-	14,284	-	14,284
Total liabilities carried at fair value	**-**	**14,284**	**-**	**14,284**

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Equity securities	19	-	-	19
Investment securities - available for sale				
Equity securities	-	-	2,655	2,655
Turkish government bonds	551,854	-	-	551,854
Eurobonds issued by the Turkish government	339,665	-	-	339,665
Other debt securities	-	644,175	-	644,175
Derivative financial assets	-	1,554	-	1,554
Total assets carried at fair value	**891,538**	**645,729**	**2,655**	**1,539,922**
Derivative financial liabilities	-	791	-	791
Total liabilities carried at fair value	**-**	**791**	**-**	**791**

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy (continued)

The following table shows a reconciliation of the fair value measurements of financial assets in Level 3 of the fair value hierarchy for the years 2017 and 2016.

Available-for-sale securities	31 December 2017	31 December 2016
Balance at 1 January	2,655	160
Additions	1,452	2,495
Disposals	-	-
Balance at 31 December	**4,107**	**2,655**

There are no transfers between the first and the second levels in the current year.

The buildings recorded under property and equipment on the statement of financial position are carried at fair value. Such fair value measurement includes inputs of Level 3 of the fair value hierarchy. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends. The fair value measurements are based on comparison of similar items method, substitution cost method and direct capitalization method.

6. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	36,626	63,904
Balances with Central Bank	1,313,845	1,094,711
Cash and balances with central banks	**1,350,471**	**1,158,615**
Due from banks	**1,604,967**	**221,449**
Money market receivables	**9,600**	**4,763**
Cash and cash equivalents	**2,965,038**	**1,384,827**
Less: Income accrual	(5,911)	(2,017)
Less: Reserve deposits at Central Bank	(990,758)	(660,885)
Cash and cash equivalents	**1,968,369**	**721,925**

As at 31 December 2017 and 2016, deposits and placements are as follows:

	31 December 2017				31 December 2016			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with Central Bank	90,592	1,223,253	4.1	1.5	97,289	997,422	0.4	5.8
Due from banks	285	1,604,682	-	2.7	738	220,711	13.5	0.1 - 0.9
Cash collateral on reverse repurchase agreements	-	-	-	-	-	-	-	-
Money market placements	9,600	-	11.6	-	4,763	-	13.5 - 15.7	-
Total	**100,477**	**2,827,935**			**102,790**	**1,218,133**		

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

6. CASH AND CASH EQUIVALENTS (continued)

Balances with Central Bank include:

	31 December 2017		31 December 2016	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Unrestricted demand deposits	90,592	232,495	97,289	336,537
Restricted reserve requirements	-	990,758	-	660,885
Total	**90,592**	**1,223,253**	**97,289**	**997,422**

According to the regulations of the Central Bank of Turkish Republic ("the Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day-to-day operations.

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

7. TRADING SECURITIES

	31 December 2017		31 December 2016	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Other instruments				
Share certificates	28	-	19	-
Other securities	30,521	-	5,106	-
Total trading securities	**30,549**	**-**	**5,125**	**-**

Trading debt securities have fixed rates.

As at 31 December 2017 and 2016, none of the trading securities are kept as collateral or guarantee.

8. INVESTMENT SECURITIES

Available for Sale Securities

	31 December 2017		31 December 2016	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Equity instruments				
Equity securities	4,107	-	2,655	-
Debt instruments				
Turkish government bonds	907,318	1.8-20.1	551,854	2.0-11.4
Eurobonds issued by Turkish government	369,973	1.4-6.2	339,665	3.7-6.4
Other debt securities	707,612	3.6-6.5	644,175	3.9-5.3
Total available for sale securities at fair value	**1,989,010**		**1,538,349**	

As at 31 December 2017, TL 784,714 (31 December 2016: TL 426,360) of available for sale securities has floating interest rates and the remaining portion has fixed rates.

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

8. INVESTMENT SECURITIES (continued)

Available for Sale Securities (continued)

The movement in available for sale securities is summarized as follows:

Available for Sale Securities	2017	2016
At 1 January	1,538,349	1,086,454
Foreign exchange differences	80,537	178,755
Purchases	568,976	595,879
Disposals and revaluation differences (sale or redemption)	(198,852)	(322,739)
At 31 December	**1,989,010**	**1,538,349**

As at 31 December 2017, TL 700,729 (31 December 2016: TL 47,924) of available-for-sale securities is kept as a guarantee for stock exchange and other money market operations.

As at 31 December 2017 and 2016, certain portion of available for sale securities is pledged under repurchase agreements. Carrying value of securities pledged under repurchase agreements and carrying value of liabilities that are related to such securities are as follows:

	31 December 2017	31 December 2016
Carrying value of securities pledged under repurchase agreements	475,844	249,825
Carrying value of liabilities of such securities	512,289	334,785

Repurchase agreements mature within one month.

Gains and losses from investment securities comprise of TL 2,062 for derecognition of available for sale securities for the year ended 31 December 2017 (31 December 2016: TL 17,051).

Held to Maturity Securities

The Group has financial assets classified as held to maturity amounting to TL 493,413 as at 31 December 2017 (31 December 2016: 184,587).

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

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2017						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	2,689,576	3,949,067	168,012	6,806,655	9.0-34.0	2.3-7.7	2.8-6.5
Consumer loans	829,479	-	134	829,613	0.7-1.6	-	0.5-0.6
Credit cards	19,159	737	-	19,896	20.4-22.1	-	-
Specialized loans	243	-	-	243	0.9-1.3	-	-
Investment loans	38	-	-	38	38.3	-	-
Total loans	**3,538,495**	**3,949,804**	**168,146**	**7,656,445**			
Loans under follow-up	96,523	-	-	96,523			
Less: Allowance for losses on loans and advances	(90,742)	-	-	(90,742)			
Total	**3,544,276**	**3,949,804**	**168,146**	**7,662,226**			

	31 December 2016						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,402,230	2,717,219	263,935	4,383,384	9.0-34.0	1.0-7.7	2.7-5.5
Consumer loans	627,732	-	498	628,230	0.7-1.6	-	0.5-0.6
Credit cards	21,864	603	-	22,467	20.4-24.2	-	-
Specialized loans	1,339	-	-	1,339	0.9-1.3	-	-
Investment loans	26,703	-	-	26,703	17.5-38.3	-	-
Total loans	**2,079,868**	**2,717,822**	**264,433**	**5,062,123**			
Loans under follow-up	115,153	-	-	115,153			
Less: Allowance for losses on loans and advances	(92,255)	-	-	(92,255)			
Total	**2,102,766**	**2,717,822**	**264,433**	**5,085,021**			

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

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

The portfolio reserve amounting to TL 18,595 (31 December 2016: TL 8,719) for impairment is provided based on past experience, management's assessments of the current economic conditions and the quality and inherent risk in the credit portfolio of the Group. It is included in the total allowance presented in table above.

Movements in the allowance for impairment	2017	2016
Specific allowance for impairment		
Allowance at the beginning of year	83,536	134,706
Charge for the year	9,692	23,891
Recoveries	(13,607)	(5,069)
Provision net of recoveries	(3,915)	18,822
Loans written off during the year and other adjustments(*)	(7,474)	(69,992)
Balance at 31 December	72,147	83,536
Collective allowances for impairment		
Allowance at beginning of year	8,719	32,620
Charge / (reversal) for the year	9,876	(23,901)
Balance at 31 December	18,595	8,719
Total allowances for impairment	**90,742**	**92,255**

Reconciliation of provision for impairment of loans and advances	2017	2016
Impairment loss for specific allowances	(3,915)	18,822
Reversal impairment loss for collective allowances	9,876	(23,901)
Total provision net of recoveries – for cash loans	5,961	(5,079)
Provision net of recoveries – for non-cash loans and commitments (Note 15)	1,883	4,310
Total provision for impairment of loans and advances	**7,844**	**(769)**

(*) In the current period, the Group has written off TL 9,757 portion of its non-performing loans (31 December 2016: TL 73,433). The provision amount written off regarding such transaction is TL 9,757. Besides, TL 2,283 provision for indemnified non-cash loans for which provision has been booked on other provisions account on the liability side in prior period has been transferred to specific allowances account in the current period (31 December 2016: TL 3,441).

As at 31 December 2017, the amount of loans and advances, on which interest is not being accrued or where interest is suspended, is TL 96,523 (31 December 2016: TL 115,153).

As at 31 December 2017, TL 2,207,174 (31 December 2016: TL 1,431,829) of loans and advances have floating interest rates and the remaining portion has fixed rates.

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

10. TANGIBLE ASSETS

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2017 Net of accumulated depreciation and impairment	16,685	13,136	-	-	29,821
Additions	-	11,034	-	-	11,034
Disposals, net(**)	-	(17)	-	-	(17)
Revaluation and impairment, net	1,582	-	-	-	1,582
Depreciation charge for the year	(197)	(5,458)	-	-	(5,655)
At 31 December 2017, net of accumulated depreciation and impairment	**18,070**	**18,695**	**-**	**-**	**36,765**
At 1 January 2017					
Cost	9,879	39,407	3,165	48	52,499
Revaluation and impairment, net(*)	10,677	-	-	-	10,677
Accumulated depreciation	(3,871)	(26,271)	(3,165)	(48)	(33,355)
Net carrying amount	**16,685**	**13,136**	**-**	**-**	**29,821**
At 31 December 2017					
Cost	9,879	50,441	3,165	48	63,533
Revaluation and impairment, net(*)	12,259	-	-	-	12,259
Accumulated depreciation	(4,068)	(31,746)	(3,165)	(48)	(39,027)
Net carrying amount	**18,070**	**18,695**	**-**	**-**	**36,765**

(*) As at 31 December 2017, there is TL 12,259 revaluation surplus on buildings (31 December 2016: TL 10,677). Such revaluation surplus is identified as the difference between the net book value and the fair value of property at the reporting date; the date of revaluation. Fair values are determined by a third party appraiser commissioned by BRSA and Capital Markets Board.

(**) The cost and accumulated depreciation of disposed assets as at 31 December 2017 are as follows:

At 31 December 2017	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
Cost	-	176	1	-	177
Revaluation surplus	-	-	-	-	-
Accumulated depreciation and impairment	-	(159)	(1)	-	(160)
Net disposal amount	**-**	**17**	**-**	**-**	**17**

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

10. TANGIBLE ASSETS (continued)

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2016					
Net of accumulated depreciation and impairment	15,355	11,330	2	-	26,687
Additions	-	5,604	-	-	5,604
Disposals, net(*)	-	(7)	-	-	(7)
Revaluation and impairment, net	1,526	-	-	-	1,526
Depreciation charge for the year	(196)	(3,791)	(2)	-	(3,989)
At 31 December 2016, net of accumulated depreciation and impairment	**16,685**	**13,136**	**-**	**-**	**29,821**
At 1 January 2016					
Cost	9,879	33,865	3,170	117	47,031
Revaluation and impairment, net	9,151	-	-	-	9,151
Accumulated depreciation	(3,675)	(22,535)	(3,168)	(117)	(29,495)
Net carrying amount	**15,355**	**11,330**	**2**	**-**	**26,687**
At 31 December 2016					
Cost	9,879	39,407	3,165	48	52,499
Revaluation and impairment, net	10,677	-	-	-	10,677
Accumulated depreciation	(3,871)	(26,271)	(3,165)	(48)	(33,355)
Net carrying amount	**16,685**	**13,136**	**-**	**-**	**29,821**

(*) The cost and accumulated depreciation of disposed assets as at 31 December 2016 are as follows:

At 31 December 2016	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
Cost	-	62	5	69	136
Impairment	-	-	-	-	-
Accumulated depreciation and impairment	-	(55)	(5)	(69)	(129)
Net disposal amount	**-**	**7**	**-**	**-**	**7**

There are no capitalized borrowing costs related to the acquisition of the property and equipment during the year (31 December 2016: None).

11. INTANGIBLE ASSETS

Software Licenses and Other	31 December 2017	31 December 2016
Beginning of the year, net of accumulated amortization	2,982	1,496
Additions	3,466	2,075
Disposals, net	-	-
Amortization charge for the year	(1,254)	(589)
At the end of the year, net of accumulated amortization	**5,194**	**2,982**
At beginning of the year		
Cost	21,412	19,769
Accumulated amortization	(18,430)	(18,273)
Net carrying amount	**2,982**	**1,496**
At end of the year		
Cost	24,878	21,412
Accumulated amortization	(19,684)	(18,430)
Net carrying amount	**5,194**	**2,982**

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

12. OTHER ASSETS

	31 December 2017	31 December 2016
Transitory receivables(*)	40,952	23,443
Collaterals given	24,321	8,674
Assets to be disposed of(**)	8,415	10,619
Prepaid expenses	3,585	3,069
Payments for mutual funds	876	320
Office supply inventory	598	441
Receivables from credit cards and debit cards	404	319
Others	23,421	7,491
	102,572	**54,376**

(*) Transitory receivables mainly include receivables from clearing house of cheques.

(**) Assets to be disposed of account comprise mainly property, acquired from defaulted loan customers and will be mainly realized through sale.

The movement of assets to be disposed of is as follows:

	2017	2016
Opening balance at 1 January	10,619	9,927
Additions	23	916
Disposals, net	(974)	(159)
Net (charge) / reversal of provision for impairment	(1,253)	(65)
Closing balance at 31 December	**8,415**	**10,619**

As at 31 December 2017, the impairment on assets to be disposed of account, which is based on independent appraisal reports, amounts to TL 1,416 (31 December 2016: TL 199). The amount of reversal of impairment for the items disposed is TL 36 (31 December 2016: TL 27).

13. DEPOSITS

Due to Banks

	31 December 2017				31 December 2016			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	69,980	1,261	-	-	450,729	51	-	-
Time	-	-	-	-	-	3,694	-	1.1
Total	**69,980**	**1,261**			**450,729**	**3,745**		

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

13. DEPOSITS (continued)

Deposits

	31 December 2017				31 December 2016			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	39,614	50,729	-	-	25,782	34,410	-	-
Time	1,163,288	817,314	4.5-15.0	0.1-6.3	1,053,815	625,377	4.5-12.0	0.1-4.0
	1,202,902	**868,043**			**1,079,597**	**659,787**		
Commercial and other								
Demand	87,200	287,588	-	-	56,116	106,746	-	-
Time	140,969	687,158	4.5-15.0	0.1-6.3	484,468	463,363	4.5-12.0	0.1-4.0
	228,169	**974,746**			**540,584**	**570,109**		
Total	**1,431,071**	**1,842,789**			**1,620,181**	**1,229,896**		

Other Money Market Deposits

	31 December 2017				31 December 2016			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
Due to banks & mutual funds	1,149,966	-	7.7-12.3	-	170,411	164,374	7.6-8.5	2.2-2.3
Total	**1,149,966**	**-**			**170,411**	**164,374**		

14. FUNDS BORROWED

	31 December 2017				31 December 2016			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Short term(*)								
Fixed interest	6,614	4,682,854	6.3 - 6.8	0.1 - 3.2	7,386	1,493,039	6.3 - 6.8	0.1 - 3.0
Medium/long term(*)								
Fixed interest	-	2,298,570	-	1.9 - 3.0	-	2,271,410	-	1.0 - 3.0
Total	**6,614**	**6,981,424**			**7,386**	**3,764,449**		

(*) The short term and medium/long term allocation of funds borrowed are based on the contractual payment period.

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

14. FUNDS BORROWED (continued)

Repayments of medium/long term borrowing are as follows:

	31 December 2017	31 December 2016
2016	-	-
2017	-	1,379,431
2018	2,298,570	891,979
Total	**2,298,570**	**2,271,410**

The Group did not have any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2017 (2016: None).

Funds borrowed consist of funds obtained from Turkish Eximbank to finance certain export loans given to customers under prevailing regulations and funds obtained from foreign banks and financial institutions (31 December 2016: 100% of total funds borrowed). In the current period the majority of the funds borrowed, 67%, are obtained from the Bank's current shareholder ICBC and group companies of ICBC (31 December 2016: 87%). The Group had borrowed a total amount of TL 10,203,495 during year 2017 (31 December 2016: TL 7,856,492) and paid a total amount of TL 14,026,595 (31 December 2016: TL 10,445,443).

Finance Leases:

As at 31 December 2017 and 2016, the Group has no finance lease obligations.

As at 31 December 2017 and 2016, the Group does not have any obligations from operational lease agreements.

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS

	31 December 2017	31 December 2016
Other liabilities		
Blocked checks and other blockage items	392,685	4,096
Transfer orders	103,250	30,773
Transitory payables	23,379	150,879
Taxes and funds payable	13,542	14,416
Payable for credit card settlements	1,163	932
Advances taken	227	915
Others	15,089	14,134
	549,335	**216,145**
Employee benefits		
Employee termination benefits	10,735	8,743
Employee vacation pay liability	5,242	4,936
	15,977	**13,679**
Provisions		
Provision for non-cash loans not indemnified	6,092	7,173
Provisions against lawsuits	9,546	6,953
Provision for premium	5,071	5,638
	20,709	**19,764**
Total	**586,021**	**249,588**

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

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS (continued)

Employee Termination Benefits

The movement in provision for employee termination benefits is as follows:

	2017	2016
At 1 January	8,743	7,569
Interest cost	497	589
Effects of change in actuarial assumptions	(463)	(309)
Paid during the year	(2,473)	(2,177)
Current service cost	4,431	3,071
At 31 December	**10,735**	**8,743**

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of full TL 4,732 and full TL 4,297 at 31 December 2017 and 2016, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2017 and 2016, the Group reflected a liability based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the date of financial position.

The principal actuarial assumptions used at the dates of financial position are as follows:

31 December	2017	2016
Discount rate	11.00	11.00
Expected rates of salary/limit increases	6.00	6.00

In the current period, actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the consolidated Consolidated statement of profit or loss and other comprehensive income, the prior year actuarial gains / losses were recognized in the consolidated statement of profit or loss.

The movement in provision for employee vacation liability is as follows:

	2017	2016
At 1 January	4,936	4,300
Paid during the year	(476)	(371)
Current service cost	782	1,007
At 31 December	**5,242**	**4,936**

Provisions

As at 31 December 2017, the Group has provided TL 6,092 provision due to non-cash loans and irrevocable commitments that are not indemnified yet, however whose cash loan balances are impaired (31 December 2016: TL 7,173).

As at 31 December 2017, the Group has provided TL 9,546 provision due to certain lawsuits filed against the Group (31 December 2016: TL 6,953).

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

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS (continued)

The movement in provision for non-cash loans not indemnified is as follows:

	2017	2016
At 1 January	7,173	6,297
Charge for the year	438	1,467
Recoveries	764	2,850
Transfer to specific allowances (Note 9)	(2,283)	(3,441)
At 31 December	**6,092**	**7,173**

The movement in provision against lawsuits is as follows:

	2017	2016
At 1 January	6,953	6,198
Charge for the year	2,595	795
Paid during the year	(2)	(40)
At 31 December	**9,546**	**6,953**

16. TAXATION

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. This rate is applied to tax base which is calculated by adding certain non-deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

The Bank and its subsidiaries, ICBC Yatırım and ICBC Portföy, are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

Major components of income tax expense for the years ended 31 December 2017 and 2016 are:

	2017	2016
Consolidated statement of profit or loss		
Current income tax expense	39,898	8,379
Deferred income tax expense / (income)		
Relating to origination and reversal of temporary differences and tax loss	(7,697)	3,932
Income tax expense reported in the consolidated statement of profit or loss	**32,201**	**12,311**

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

16. TAXATION (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2017 and 2016 is as follows:

	2017	2016
Profit before Income Tax	**143,436**	**53,143**
At Turkish statutory income tax rate of 20%	31,556	10,629
Tax exempt income	(18)	(299)
Non-deductible expenses	894	1,256
Others, net	(231)	725
Income tax expense	**32,201**	**12,311**

Deferred Income Tax

Deferred income tax at 31 December 2017 and 2016 relates to the following:

	Consolidated Statement of Financial Position	
	31 December 2017	**31 December 2016**
Deferred tax assets		
Liability for employee termination benefits and unused vacation pay liability	3,196	2,736
Reserve for loan losses	3,719	2,617
Valuation differences of securities	67	4,939
Valuation differences of derivatives	2,709	-
Others	6,467	1,841
Gross deferred tax assets	**16,158**	**12,133**
Deferred tax liabilities		
Valuation and depreciation differences of property and equipment	757	433
Valuation differences of securities	223	39
Valuation differences of derivatives	-	153
Others	-	-
Gross deferred tax liabilities	**980**	**625**
Deferred tax assets, net	**15,178**	**11,508**

Movement of net deferred tax asset/liability can be presented as follows:

	2017	2016
Deferred tax asset, net at 1 January	11,508	13,557
Deferred income tax recognized under profit or loss	7,697	(3,932)
Deferred income tax recognized under shareholders' equity(*)	(4,027)	1,883
Deferred tax asset, net at 31 December	**15,178**	**11,508**

(*) The change in deferred tax asset/liability of TL 4,027 (31 December 2016: TL 1,883), recognized under shareholders' equity, consists of TL 93 (31 December 2016: TL (62)) resulting from actuarial gains, TL (376) (31 December 2016: TL (362)) resulting from the revaluation surplus on buildings and TL (3,744) (31 December 2016: TL 2,577) resulting from valuation differences of securities.

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

16. TAXATION (continued)

Current Income Tax Payable

Income tax payable at 31 December 2017 and 2016 is as follows:

	31 December 2017		31 December 2016	
	Bank	**Subsidiaries**	**Bank**	**Subsidiaries**
Current income tax charge	34,092	4,558	6,639	1,372
Prepaid income taxes	(20,301)	(2,837)	(3,751)	(1,184)
Income tax payable, net	**13,791**	**1,721**	**2,888**	**188**

17. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures and options.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	31 December 2017		31 December 2016	
	Fair value assets	**Fair value liabilities**	**Fair value assets**	**Fair value liabilities**
Derivatives held for trading				
Forward currency purchases and sales	50	13	10	6
Currency swap purchases and sales (*)	690	14,271	1,544	785
Total	**740**	**14,284**	**1,554**	**791**

(*) The Group has no fair value assets resulted from precious metal swap purchase and sales transaction (31 December 2016: None).

The fair values of derivative financial instruments are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As at 31 December 2017 and 2016, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

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

17. DERIVATIVES (continued)

The table below shows the notional amounts of derivative instruments analyzed by currency:

31 December 2017	Turkish Lira	US Dollars	Euro	Others	Total
Purchases / inflows					
Currency forwards	1,323	6,877	2,671	-	**10,871**
Currency swaps	-	1,326,269	-	9,534	**1,335,803**
Sales / outflows					
Currency forwards	7,374	1,334	455	1,675	**10,838**
Currency swaps	911,992	6,445	430,545	2,863	**1,351,845**
Total of purchases / inflows	1,323	1,333,146	2,671	9,534	**1,346,674**
Total of sales / outflows	919,366	7,779	431,000	4,538	**1,362,683**
Net notional position	**(918,043)**	**1,325,367**	**(428,329)**	**4,996**	**(16,009)**

31 December 2016	Turkish Lira	US Dollars	Euro	Others	Total
Purchases / inflows					
Currency forwards	1,058	3,650	818	780	**6,306**
Currency swaps	182,084	145,954	-	7,915	**335,953**
Sales / outflows					
Currency forwards	4,057	1,745	318	674	**6,794**
Currency swaps	70,770	65,193	184,301	2,040	**322,304**
Total of purchases / inflows	183,142	149,604	818	8,695	**342,259**
Total of sales / outflows	74,827	66,938	184,619	2,714	**329,098**
Net notional position	**108,315**	**82,666**	**(183,801)**	**5,981**	**13,161**

The table below shows the notional amounts of derivative instruments analyzed by the term to maturity:

31 December 2017	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Currency forwards:						
Purchases / inflows	-	-	-	-	10,871	10,871
Sales / outflows	-	-	-	-	10,838	10,838
Currency swaps:						
Purchases / inflows	-	-	-	-	1,335,803	1,335,803
Sales / outflows	-	-	-	-	1,351,845	1,351,845
Other transactions:						
Purchases / inflows	-	-	-	-	-	-
Sales / outflows	-	-	-	-	-	-
Total of purchases / inflows	-	-	-	-	1,346,674	1,346,674
Total of sales / outflows	-	-	-	-	1,362,683	1,362,683
Total of transactions	**-**	**-**	**-**	**-**	**2,709,357**	**2,709,357**

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

17. DERIVATIVES (continued)

31 December 2016	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Currency forwards:						
Purchases / inflows	5,964	342	-	-	-	**6,306**
Sales / outflows	6,454	340	-	-	-	**6,794**
Currency swaps:						
Purchases / inflows	327,508	8,445	-	-	-	**335,953**
Sales / outflows	314,664	7,640	-	-	-	**322,304**
Other transactions:						
Purchases / inflows	-	-	-	-	-	-
Sales / outflows	-	-	-	-	-	-
Total of purchases / inflows	333,472	8,787	-	-	-	**342,259**
Total of sales / outflows	321,118	7,980	-	-	-	**329,098**
Total of transactions	**654,590**	**16,767**	**-**	**-**	**-**	**671,357**

18. SHARE CAPITAL

	31 December 2017	31 December 2016
Number of common shares, TL 0.1 (in full TL), par value (Authorized and issued)	8,600,000,000	4,200,000,000

In accordance with the decision of the general extraordinary meeting of the Bank dated 9 February 2017, the Bank's capital has decided to increase and the decision was registered by İstanbul Trade Registry Office at 29 June 2017. At this content, the Bank's capital has increased in cash amounting to TL 440,000 from TL 420,000 to TL 860,000 and the whole increase was made in cash. With this increase, ICBC's shareholding ratio at the Bank has increased from 92.82% to 92.84%.

As at 31 December 2017 and 2016, the composition of shareholders and their respective percentage of ownership in historical terms can be summarized as follows:

	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Industrial and Commercial Bank of China Limited (ICBC)	798,424	92.84	389,831	92.82
Publicly held	61,576	7.16	30,169	7.18
Total	**860,000**	**100.00**	**420,000**	**100.00**

The 70% of share capital of The Bank consist of Type A shares and the remaining consist of Type B shares. Three out of five members of the Board of Directors are appointed by Type A shareholders and the remaining two are appointed by Type B shareholders. There is no other privilege appointed.

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

19. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

	2017			2016		
	Legal Reserves	Retained Earnings	Total	Legal Reserves	Retained Earnings	Total
At 1 January	**11,710**	**207,399**	**219,109**	**11,537**	**167,064**	**178,601**
Net profit for the year	-	111,235	111,235	-	40,832	40,832
Transfers	268	400	668	173	(497)	(324)
At 31 December	**11,978**	**319,034**	**331,012**	**11,710**	**207,399**	**219,109**

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

20. DIVIDENDS PAID AND PROPOSED

As at 31 December 2017 and 2016, the Group did not distribute any dividends to shareholders in respect of 2016 and 2015 profits.

21. EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation, such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are regarded similarly. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2017.

There is no dilution of the shares as at 31 December 2017 and 2016.

The following reflects the income (in Kurus) and share data used in the basic earnings per share computations:

	31 December 2017	31 December 2016
Profit attributable to equity holders of the Bank	111,235	40,832
Weighted average number of ordinary shares in issue (thousand)	8,600,000	4,200,000
Basic earnings per thousand share (expressed in full TL)	**0.0129**	**0.0097**

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

22. RELATED PARTY DISCLOSURES

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 the financial and operating decisions. The Group is controlled by ICBC which owns 92.84% (31 December 2016: ICBC; 92.82%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and ICBC Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the ICBC's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

The summary of related party balances and results of transactions are presented below:

Related Party		Cash Loans & Due From Banks	Non-cash Loans	Deposits Taken	Notional Amount of Derivative Transactions	Interest Income	Interest Expense	Other Operating Income	Other Operating Expense
Shareholders	2017	2,611	116,912	70,176	3,515,193	13,082	86,136	-	-
	2016	552,864	113,702	450,718	1,797,841	21,260	38,566	-	-
Others(*)	2017	551,670	1,782	191	946,131	22,443	4,429	-	-
	2016	529,881	3,366	178	1,273,790	15,356	10,850	-	-
Directors'	2017	82	-	519	-	-	37	21	6
interests	2016	57	-	1,321	-	-	16	7	4

(*) As at 31 December 2017, cash loans mainly include TL 548,335 (31 December 2016: TL 527,636) loans granted to Hai Kuo Company, a indirect subsidiary of ICBC China. As at 31 December 2017, deposits taken mainly include TL 191 (31 December 2016: TL 178) due to Hai Kuo Company.

In addition to the balances represented above, the Bank has TL 122 irrevocable commitment to related parties as at 31 December 2017 (31 December 2016: TL 144).

Compensation of Key Management Personnel of the Group

For the year ended 31 December 2017, the executive and non-executive members of the Board of Directors and management received remuneration and fees totaling approximately TL 14,698 (31 December 2016: TL 10,821) comprising salaries and other short-term benefits.

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

23. FEE AND COMMISSION INCOME AND EXPENSE

	2017	2016
Fee and commission income		
Letters of guarantee	5,515	6,390
Letters of credit, acceptance credits and other guarantees	2,655	309
Total	**8,170**	**6,699**
Fees and commission expense		
Corresponding bank fees and other commissions	6,362	5,687
Total	**6,362**	**5,687**

24. INCOME FROM BANKING SERVICES

	2017	2016
Commission income	41,381	-
Project evaluation fee	10,880	15,523
Income from credit cards	2,481	2,756
Income from fund management	2,399	1,792
Charges regarding fund transfers	886	903
Charges regarding account transactions	341	465
Income from insurance brokerage	139	129
Others	28,443	13,911
Total	**86,950**	**35,479**

25. NET TRADING INCOME

	2017	2016
Other gain/(loss)	7,555	(15,172)
Gain from derecognition of available-for-sale securities	2,062	17,051
Commissions from capital market transactions	-	5,433
Net trading income from derivative and currency transactions	(4,677)	(2,867)
Total	**4,940**	**4,445**

26. OTHER INCOME

	2017	2016
Income from sale of property, equipment and assets to be disposed of	806	515
Collections from loans written off in prior years	-	87
Others	2,968	11,672
Total	**3,774**	**12,274**

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

27. SALARIES AND EMPLOYEE BENEFITS

	2017	2016
Personnel expenses		
Wages and salaries	106,427	89,664
Other fringe benefits	12,589	12,141
Employers' share of social security premiums	11,055	11,064
Provision for employee termination benefits and unused vacation pay liability	2,610	1,482
Total	**132,681**	**114,351**

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Operating lease expenses	25,300	23,551
Heating and lighting expenses	7,010	3,931
Communication expenses	4,318	5,470
Insurance expenses	3,036	2,746
Maintenance expense	2,135	2,087
Cleaning and other residential expenses	2,122	1,846
Computer expenses	1,181	1,395
Hospitality and representation expenses	712	745
Transportation expenses	248	213
Printing and stationary expenses	233	354
Advertising expenses	17	659
Others	14,787	6,015
Total	**61,099**	**49,012**

29. OTHER EXPENSES

	2017	2016
Saving deposit insurance fund premium	5,315	5,036
Provision for litigations	3,032	795
Consultancy expenses	1,833	1,545
Others	9,226	8,528
Total	**19,406**	**15,904**

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

30. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiary undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	31 December 2017	31 December 2016
Letters of guarantee	1,675,741	1,180,143
Letters of credit	68,919	78,677
Other guarantees	44,523	131,311
Total non-cash loans	**1,789,183**	**1,390,131**
Credit card limits	68,919	75,776
Other commitments	130,980	117,163
Total	**1,989,082**	**1,583,070**

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises. These leases have an average life of 1 to 10 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non-cancellable operating leases.

Litigation

In the normal course of its operations, the Group can face with legal disputes, claims and complaints. The necessary provision for those cases is provided based on management estimates and professional advice. As at 31 December 2017, TL 9,546 provision is provided against such litigations (31 December 2016: TL 6,953).

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

The Group also manages 5 open-ended mutual funds (31 December 2016: 5 open-ended mutual funds), which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

31. EVENTS AFTER THE REPORTING PERIOD

None.