Odea Bank A.Ş.

Financial statements at December 31, 2018 together with independent auditor's report

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Güney Bağımsız Denetim ve SMMM A.Ş.
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Report on the Audit of the Financial Statements

To General Assembly of Odea Bank A.Ş.

Qualified opinion

We have audited the financial statements of Odea Bank A.Ş. (the "Bank"), which comprise the statement of financial position as at December 31, 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effect of the matter referred in the Basis for Qualified Opinion Section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

The accompanying financial statements as at December 31, 2018 include a free reserve for possible risks amounting to TL 16.385 thousands, which is provided in prior periods by the Bank Management and was decreased during the current period for possible results of the circumstances which may arise from possible changes in the economy and market conditions. As a result of this provision which does not meet the accounting criteria of IAS 37, Profit for the period is overstated by TL 161.375 thousand for the year ended December 31, 2018, other liabilities and provisions are overstated by TL 16.385 thousand, deferred tax asset is overstated by TL 3.605 thousand and retain earnings balance is understated by TL 174.155 thousands as at December 31, 2018.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion Section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Key Audit Matter	How the Key Audit Matter is addressed in our audit
The effects of First-time adaptation of "IFRS 9 Financial Instruments" standard in the financial statements and accounting of impairment of financial assets in the financial statements, and its related outstanding explanations	
As disclosed in note 2.Z; the Bank started implementing IFRS 9 "Financial Instruments Standard" effective on or after January 1, 2018 and accounting the expected credit losses of financial in accordance with this standard in the financial statements effective on or after this date. The reasons we consider the IFRS 9 transition and its impairment of financial assets as a key audit matter; ▪ Financial assets within balance-sheet and off-balance-sheet subject to IFRS 9 expected credit losses measurement have significant balance in the financial statements ▪ The effect of IFRS 9 transition in the Bank's equity is 15% ▪ The applications IFRS 9 introduced are complex and comprehensive ▪ The classification of financial instruments based on the Bank's business models and the characteristics of contractual cash flows in line with IFRS 9 and requirement of important judgments to determine this business model and the characteristics of contractual cash flows ▪ Risks related to the policies established by the management with the compliance and requirements of the legislation and other applications for the calculation of expected credit losses ▪ The complexity and intensity of the control environment in the processes designed or reorganized together with the adoption of IFRS 9 ▪ Estimations and assumptions used for expected credit losses are new, important and complex ▪ Complex and comprehensive disclosure requirements of IFRS 9.	Our additional audit procedures in addition to our current audit procedures: ▪ Evaluation of the compliance of the accounting policies adopted with regard to IFRS 9, the Bank's past performance, and local and global practices ▪ Evaluation of the key judgments, assumptions, methods used for calculation of expected credit loss determined by the management, and whether the data source is reasonable or not, and their compliance and standard requirements in light of industry and global practices ▪ Testing criteria used for determining the contractual cash flows including interest payments with regard to solely principal and principal balance of financial assets on a sample basis and evaluation of Bank's business model ▪ Evaluation of significant increase in credit risk, definition of default, definition of restructuring, probability of default, loss given default, exposure at default and macro-economic variables, and related basic and significant estimates and assumptions determined for calculation process of expected credit loss and whether these assumptions determined by financial risk management are in line with the Bank's historical performance, legislation, and reasonableness of the estimation process regarding future performance and investigation of credit risk portfolio on a sample basis ▪ Evaluation of the accuracy and completeness of attributes of the data used for the calculation process of expected credit losses ▪ Detailed testing of mathematical verification of expected credit losses' calculation on a sample basis ▪ Evaluation of the assumptions and estimations used for the individually assessed financial assets based on expert judgment ▪ Evaluating the necessity and accuracy of the updates made or required updates after the modeling process ▪ Auditing of disclosures related to IFRS 9.

Derivative Financial Instruments	
Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in Note 8. Fair value of the derivative financial instruments is determined by selecting most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered by us as a key audit matter because of the subjectivity in the estimates, assumptions and judgements used.	Our audit procedures included among others involve reviewing policies regarding fair value measurement accepted by the Bank management fair value calculations of the selected derivative financial instruments and the assessment of used estimations and the judgements and testing the assessment of operating effectiveness of the key controls in the process of fair value determination.

Responsibilities of the Board of Directors for the financial statements

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

In preparing the financial statements, the management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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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 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

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

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

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner who supervised and concluded on this independent auditor's report is Yaşar Bivas.

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

Yaşar Bivas
Partner, SMMM

Istanbul, Turkey
April 10, 2019

Odea Bank A.Ş.

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Statement of financial position
as of December 31, 2018
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	Audited December 31, 2018	Audited December 31, 2017
Assets			
Cash and balances with central banks	5	4.070.971	3.731.820
Due from banks	6	2.447.101	437.622
Money market placements	6	740.121	2.742.869
Financial assets at fair value through profit or loss	7	*1.088.570*	*1.196.311*
- Financial assets held for trading	7	3.269	775.195
- Derivative financial instruments	7-8	1.085.301	421.116
Loans and advances to customers	9	18.556.247	22.465.253
Investment securities	10	2.986.100	*1.709.566*
- Financial assets at fair value through other comprehensive income(*)	10	201.767	697.500
- Financial assets at fair value through other comprehensive income pledged as collateral (*)	10	103.131	564.933
- Financial assets measured at amortized cost(**)	10	1.091.094	109.055
- Financial assets measured at amortized cost pledged as collateral (**)	10	1.590.108	338.078
Property and equipment	11	86.823	104.383
Intangible assets	12	62.942	89.925
Deferred tax assets	16	272.167	90.342
Non - current assets held for sale	13	238.525	170.946
Other assets	13	797.652	224.763
Total assets		**31.347.219**	**32.963.800**
Liabilities			
Deposits	14	21.561.048	23.910.387
Due to banks and money market balances	15	3.075.907	2.942.720
Subordinated liabilities	15	1.843.122	1.174.992
Derivative financial instruments	8	1.192.620	404.471
Taxes payable	16	-	1.495
Employee benefits	17	36.847	36.002
Other liabilities and provisions	18	417.853	608.726
Total liabilities		**28.127.397**	**29.078.793**
Equity			
Share capital	19	3.288.842	3.288.842
Other reserves	20	(87.958)	(33.285)
Retained earnings		1.788	308.977
Profit for the period		17.150	320.473
Total equity		**3.219.822**	**3.885.007**
Total liabilities and equity		**31.347.219**	**32.963.800**

(*) Classified as “Available for sale financial assets” as of December 31, 2017.
(**) Classified as “Held to maturity” as of December 31, 2017.

The accompanying notes set out on pages 6 to 71 form an integral part of these financial statements.

Odea Bank A.Ş.

Statement of income
for the year ended December 31, 2018
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	Audited December 31, 2018	Audited December 31, 2017
Interest income	21	3.501.179	3.528.996
Interest expense	21	(2.417.790)	(2.395.362)
Net interest income		**1.083.389**	**1.133.634**
Fee and commission income	22	153.516	194.586
Fee and commission expense	22	(34.610)	(38.978)
Net fee and commission income		**118.906**	**155.608**
Foreign exchange gains, net	23	(693.212)	(136.790)
Net trading and fair value income / (loss)	23	744.478	92.009
Gains from investment securities, net	23	(58.430)	226.775
Other operating income		53.918	14.032
Total operating income		**1.249.049**	**1.485.268**
Net impairment/recoveries on financial assets		(574.347)	(344.435)
Net operating income		**674.702**	**1.140.833**
Personnel expenses	24	188.806	307.185
Other operating expenses	24	410.638	351.449
Depreciation of property and equipment	24	26.557	46.018
Amortization of intangible assets	24	32.071	33.130
Total operating expenses	24	**(658.072)**	**(737.782)**
Operating profit for the period		**16.630**	**403.051**
Profit before income tax		**16.630**	**403.051**
Current income tax credit/(expense)	16	-	(51.254)
Deferred tax income/(expense)	16	520	(31.324)
Profit for the period		**17.150**	**320.473**

The accompanying notes set out on pages 6 to 71 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended December 31, 2018
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	Audited December 31, 2018	Audited December 31, 2017
Profit/(loss) for the year		**17.150**	**320.473**
Other comprehensive income		**(88.703)**	**(5.597)**
Other comprehensive income that will not be reclassified to profit or loss		**198**	-
Gains (losses) on remeasurements of defined benefit plans		(706)	-
Other Components of other comprehensive income that will not be reclassified to profit or loss		960	-
Taxes relating to components of other comprehensive income that will not be reclassified to profit or loss		(56)	-
Other comprehensive income that will be reclassified to profit or loss		**(88.901)**	**(5.597)**
Valuation and/or reclassification profit or loss from financial assets at fair value through other comprehensive income		(25.696)	(6.996)
Income (loss) related with cash flow hedges		(88.280)	-
Taxes relating to components of other comprehensive income that will be reclassified to profit or loss		25.075	1.399
Total comprehensive income/(loss) for the year		**71.553**	**314.876**

The accompanying notes set out on pages 6 to 71 form an integral part of these financial statements.

Statement of changes in equity
for the year ended December 31, 2018
(Amounts expressed in thousands of TL unless otherwise indicated.)

Audited	**Note**	**Share capital**	**Retained Earnings and result of the year (Note 28)**	**Other reserves (Note 28)**	**Capital contribution**	**Total equity**
Balance at January 1, 2017		**3.288.842**	**312.001**	**(30.939)**	**-**	**3.569.904**
Total comprehensive income/(loss) for the year		-	320.473	(5.597)	-	**314.876**
Other		-	(3.024)	3.251	-	**227**
Balance at December 31, 2017		**3.288.842**	**629.450**	**(33.285)**	**-**	**3.885.007**
Opening adjustments in accordance with IAS 8 (*)		-	(629.340)	35.083	**-**	**(594.257)**
Total comprehensive income/(loss) for the year		-	17.150	(88.703)	-	**(71.553)**
Other		-	1.678	(1.053)	-	**625**
Balance at December 31, 2018		**3.288.842**	**18.938**	**(87.958)**	**-**	**3.219.822**

(*) In accordance with the option provided by the transition provisions of IFRS 9 "Financial Instruments", the Bank did not restate the prior period financial statements but the transition effect of the standard amounting to TL 629.340 has been recognized in the "Retained Earnings" in equity as of 1 January 2018 and negative difference amounting to TL 35.083 for the securities the difference is removed from shareholders' equity from " Other reserves" against the fair value of the financial asset. Transition impacts regarding IFRS 9 has been presented in Note 2.Z in detail.

Statement of cash flows
for the year ended December 31, 2018
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	Audited December 31, 2018	Audited December 31, 2017
Cash flows from operating activities			
Net profit/(loss)		17.150	320.473
Adjustments for:			
Amortization of intangible assets	12	32.071	33.130
Depreciation of property and equipment	11	26.557	46.018
Provision for current and deferred income taxes		-	77.195
Other short term employee benefits		(24.116)	(50.107)
Interest accrual		(241.778)	(135.621)
Cash flows from operating profits before changes in operating assets and liabilities		**(190.116)**	**291.088**
Changes in operating assets and liabilities:			
Net decrease / (increase) in due from banks and cash balances with central banks		(686.432)	1.114.700
Net decrease / (increase) in derivative financial instruments		(126.485)	(668.907)
Net decrease / (increase) in loans and advances to customers		3.057.500	3.429.501
Net (increase) / decrease in other assets		(486.962)	517.611
Net (decrease) / increase in customer deposits		(2.397.066)	(5.353.594)
Net increase / (decrease) in other liabilities and provisions		293.816	(27.490)
Net increase / (decrease) in other borrowed funds		-	-
Other taxes paid		(315.211)	(213.832)
Income taxes paid		-	(95.820)
Net cash from / (used in) operating activities		**(660.840)**	**(1.297.831)**
Cash flows from investing activities			
(Purchase of) property and equipment	11	(8.997)	(15.123)
Net book value of property and equipment disposed		79.529	58.738
(Purchase of) intangible assets, net	12	(5.089)	(8.882)
(Purchase of) financial assets measured at amortized cost (*)	10	(1.409.714)	(225.096)
Redemption or sale of financial assets measured at amortized cost	10	1.379.616	233.851
(Purchase of) financial assets at fair value through other comprehensive income securities (**)	10	(265.352)	(321.711)
Sale or redemption of financial assets at fair value through other comprehensive income	10	922.463	-
Net (used in) investing activities		**692.456**	**(278.223)**
Cash flows from financing activities			
Repayments of debt securities and subordinated loans		(244.179)	(630.203)
Proceeds from debt securities and subordinated loans		460.149	1.239.503
Repayments of borrowed funds	15	(4.120.214)	(4.713.969)
Proceeds from borrowed funds	15	4.269.843	3.992.416
Net cash from / (used in) financing activities		**365.599**	**(112.253)**
Net increase / (decrease) in cash and cash equivalents		**207.099**	**(1.397.219)**
Effects of foreign exchange rate changes on cash and cash equivalents		849.370	(41.548)
Cash and cash equivalents at beginning of year	5	4.748.729	6.187.496
Cash and cash equivalents at end of year	5	**5.805.198**	**4.748.729**
Operational cash flows from interest:			
Interest paid		3.237.394	2.067.027
Interest received		2.251.993	3.292.327

(*)Classified as "Held to maturity" as of December 31, 2017.
(**)Classified as "Available for sale financial assets" as of December 31, 2017

The accompanying notes set out on pages 6 to 71 form an integral part of these financial statements.

1. General information

Odea Bank A.Ş. (a subsidiary of Bank Audi S.A.L.) was established as a deposit bank with USD 300 Million capital with the permission of BRSA numbered 4432 dated October 27, 2011, which was published in the Official Gazette on October 28, 2011, numbered 28098. Odea Bank A.Ş. started its operations in the "foreign banks founded in Turkey" group, by taking operating permission from BRSA numbered 4963 on September 28, 2012, which was published in Official Gazette dated October 2, 2012 numbered 28429.

The Ultimate parent of the Bank is Bank Audi S.A.L.

Pursuant to the approval of BRSA dated December 8, 2015, The Bank, on March 1, 2016, converted into TL the capital contribution which were obtained from its controlling shareholder Bank Audi S.A.L. amounting to total USD 300 million, and completed the necessary legal and administrative procedures with the relevant authorities and added its converted amount toTL 883.530 to the paid in capital on March 31, 2016. On August 10, 2016, in line with Article 473 and Article 474/2 of the Turkish Commercial Code, The Bank simultaneously reduced the paid in capital by TL 90.838 and increased to TL 3.288.842 where TL 224.451 have been subscribed by Bank Audi S.A.L., TL 263.394 by European Bank for Reconstruction and Development, TL 209.252 by International Finance Corporation, TL 112.674 by IFC FIG Investment Company S.A.R.L, TL 131.697 by H.H. Sheikh Dheyab Binzayed Binsultan Al-Nahyan and TL 58.532 by Mr. Mohammad Hassan Zeidan.

The Bank is registered in Istanbul, Turkey at the following address: Levent 199, Büyükdere Caddesi No:199 Kat: 33-40 Levent Şişli/ İstanbul. As of December 31, 2018, the Bank is operating with 45 branches and 1.088 employees (December 31, 2017: 47 domestic branches, 1.185 employees). The independent auditor’s report dated April 10, 2019 is presented preceding the financial statements. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2. Summary of significant accounting policies

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

A. Basis of preparation and statement of compliance

The financial statements have been prepared on a historical cost basis; except for financial assets at fair value through other comprehensive income, derivative financial instruments and financial assets at fair value through profit or loss, which have all been measured at fair value.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) including the International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”).

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated November 1, 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Public Oversight Accounting and Auditing Standards Authority, additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”) and other relevant rules promulgated by the Turkish Commercial Code and Tax Regulations. Financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The financial statements are presented in the national currency of the Republic of Turkey the Turkish Lira (“TL”).

2. Summary of significant accounting policies (continued)

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at 31 December 2018 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2018. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows:

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 for annual periods beginning on or after 1 January 2018. The Bank assessed the effect of IFRS 15 "Revenue from Contracts with Customers" standard and the amendments did not have an impact on the financial position or performance of the Bank.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Bank disclosed the impact of the standard on financial position or performance of the Bank in Note 2.Z.

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. The interpretation is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

2. Summary of significant accounting policies (continued)

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

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

(a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
(b) share-based payment transactions with a net settlement feature for withholding tax obligations; and
(c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

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

The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments did not have a significant impact on the financial position or performance of the Bank.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

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

The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

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

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

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

2. Summary of significant accounting policies (continued)

IFRS 16 Leases (continued)

The Bank has started to work on compliance with the IFRS 16 Leases Standard effective from 1 January 2019 which is still in progress as of 31 December 2018. The Bank does not expect a significant impact in its financials with the adaptation of IFRS 16 at 1 January 2019.

The Bank will apply this standard on January 1, 2019, which is the mandatory date of implementation. The Bank considers use of modified retrospective transition approach and intends not to change comparable figures retrospectively but to adjust opening balance of the shareholders' equity at initial application.

Apart from the accounting policies mentioned above, there are no other issues to be specified.

Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures. The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted. Overall, the Bank expects no significant impact on its balance sheet and equity.

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

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Bank will wait until the final amendment to assess the impacts of the changes.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in "IAS 12 Income Taxes" when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:
- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application. The Bank is in the process of assessing the impact of the interpretation on financial position or performance of the Bank.

2. Summary of significant accounting policies (continued)

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB announced *Annual Improvements to IFRS Standards 2015–2017 Cycle*, containing the following amendments to IFRSs:

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 *Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 *Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On 7 February 2018, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Bank is in the process of assessing the impact of the interpretation on financial position or performance of the Bank.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

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

2. Summary of significant accounting policies (continued)

B. Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in Turkish Lira (TL), which is the Bank's functional and the presentation currency, and all values are rounded to the nearest thousands, except when otherwise indicated.

As of December 31, 2018 foreign exchange gains and losses arising from transactions that are completed, translated to TL by using historical foreign currency exchange rates. Balance of the foreign currency denominated monetary assets and liabilities are converted into TL by using foreign currency exchange rates of the Bank for the year end and the resulting exchange differences are recorded as foreign exchange gains and losses.

Foreign currency translation rates used by the Bank are as follows:

	31 December 2018	31 December 2017
USD	5,2978	3,7956
CHF	5,3810	3,8873
GBP	6,7744	5,1332
100 JPY	4,8133	3,3751
EURO	6,0619	4,5507

(b) Transactions and balances

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

C. Related parties

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

(a) A person or a close member of that person's family is related to a reporting entity if that person:
   - (i) has control or joint control over the reporting entity;
   - (ii) has significant influence over the reporting entity; or
   - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
   - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   - (iii) Both entities are joint ventures of the same third party.
   - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

2. Summary of significant accounting policies (continued)

C. Related parties (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

For the purpose of these financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Bank Audi Group, IFC and EBRD are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business.

D. Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost.

E. Financial assets

Financial instruments comprise financial assets, financial liabilities and derivative instruments. Financial instruments affect liquidity, market, and credit risks on the Bank's balance sheet in all respects.

Basically, financial assets create the majority of the commercial activities and operations of the Bank. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

All regular way purchases and sales of financial assets are recognized on the settlement date. The settlement date is the date that the asset is delivered to or by the Bank. Settlement date accounting requires (a) accounting of the asset when acquired by the institution and (b) disposing of the asset out of the balance sheet on the date settled by the institution; and accounting of gain or loss on disposal. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets.

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.

The Bank categorizes its financial assets as "Fair Value Through Profit/Loss", "Fair Value Through Other Comprehensive Income" or "Measured at Amortized Cost". Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments Part 3 Issued for classification and measurement of the financial instruments.

The methods and assumptions used in the recognition and measurement of financial instruments are mentioned below.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Financial Assets at Fair Value Through Profit and Loss

“Financial assets at fair value through profit/loss” are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making.

Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. Transaction costs related to such assets are recorded as expense at the time of occurrence.

Financial Assets at Fair Value Through Other Comprehensive Income

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows which are solely payments of principal and interest are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the receipt of consideration against that asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted for under the “other comprehensive income or expense items to be recycled to profit or loss” under shareholders’ equity.

Equity instruments, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

During initial recognition an entity can choose in an irrecovable way to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash fows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted for in the income statement.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Financial Assets Measured at Amortized Cost (continued)

“Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Bank include Consumer Price Indexed (CPI) bonds. These securities are measured and accounted for using the effective interest rate method based on the real coupon rates adjusted with the difference between the reference inflation index at the date of issuance and the realized inflation rate which is officially announced.

Loans and Receivables

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market.

Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the statement of income.

Foreign exchange gains and losses on the foreign currency indexed loans are presented under foreign exchange gains and losses in the statement of income.

Derecognition of a financial asset

Before evaluating whether, and to what extent, derecognition is appropriate, the Bank determines whether those criteria should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety. Criteria is applied to a part of financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.

(i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets).

(ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).

(iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

A financial asset (or, a part of a financial asset or a part of group of financial assets, where appropriate) is derecognized when, and only when,

- the contractual rights to the cash flows from the financial asset expire; or
- the contractual rights to the cash flows from the financial asset are transferred; or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in the arrangement without material delay and:
- if the entity transfers substantially all the risks and rewards of ownership of the financial asset or,
- if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, whether it has retained control of the financial asset.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Derecognition of a financial asset (continued)

If the Bank transfers the contractual rights to the cash flows from the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in the arrangement without material delay and if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset and it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset. In this case, the entity also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained.

The Bank has evaluated the non-performing loan portfolio of which contractual rights are transferred to the asset management companies, in the context of above statements and derecognizes the loans that are subject to agreements in which all risks and rewards are transferred to the buyer.

Prior period accounting policies for Financial Assets

Financial Assets at Fair Value Through Profit and Loss

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 with a pattern of short-term profit taking.

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments such as loans and advances to customers or banks and debt securities in issue were carried at amortized cost.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are included in net trading, hedging and fair value income and loss.

Investment securities

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

Investment securities are initially recognized at fair value which is the cash consideration paid including transaction costs. Available-for-sale financial assets are subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available-for sale revaluation are recognized as other comprehensive income in the “available-for-sale revaluation reserve” included in other reserves, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement.

Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Prior period accounting policies for Financial Assets (continued)

Investment securities (continued)

Held to maturity investments are initially recorded at fair value which is the cash consideration paid including transactions costs. After initial recognition held to maturity investments are measured at amortized cost by using effective interest rate less impairment losses, if any.

Available for sale financial assets include all securities other than loans and receivables, securities held to maturity and securities held for trading.

All purchases and sales of investment securities are recognized at the settlement date, which is the date the asset is delivered to/by the Bank. Any change in fair value of the available-for-sale securities to be received during the period between the trade date and the settlement date is recognized in other comprehensive income.

Unsettled transactions are recorded as off statement of financial position commitments until the settlement date.

Loans and advances to customers

Loans are non-derivative financial assets which have fixed or determinable payments and are not traded.

The Bank initially records loans and receivables at fair value including the related transaction costs and subsequently measures at amortised cost less any provision for loan losses.

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the statement of income.

The collateral strategy differentiates between collateral types on the basis of customers' ratings and loan terms. In general, the types of collaterals are cash collaterals, mortgages, guarantees, promissory notes, securities issued by the Turkish Treasury Undersecretariat and Central Bank and pledge on assets.

Impairment of financial assets

At each balance sheet date, the Bank evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If any such indication exists, the Bank determines the related impairment.

The Bank reviews its loan portfolio to assess impairment periodically. In determining whether an impairment loss should be recorded in the income statement, the Bank 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 Bank.

Impairment and uncollectability 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.

2. Summary of significant accounting policies (continued)

F. Derivative financial instruments

The derivative transactions mainly consist of options, foreign currency swaps, interest rate swaps, and foreign currency forward contracts. Derivative instruments are initially recorded at their fair values and related transaction costs are recognized in income statement at the date of occurrence. The changes in the fair values of derivatives which are not subject to hedge accounting are recorded on balance sheet under "the portion of derivative financial assets measured at fair value through profit and loss" or "the portion of derivative financial liabilities measured at fair value through profit and loss", respectively depending on the fair values being positive or negative. Fair value changes for derivatives are recorded in the account of "Profit/losses from derivative financial transactions" within the income statement.

Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts at their contractual values.

Embedded derivatives shall be separated from the host and accounted for as a derivative according to IFRS 9 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, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss. If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate Standards.

The Bank applies cash flow hedge accounting to mitigate interest rate changes on TL deposit through interest rate swaps.

IFRS 9 provides the option of deferring the adoption of IFRS 9's hedge accounting in the selection of accounting policies and option to continue with the conditions of IAS 39's hedge accounting. In this context, the Bank applies IAS 39 standard for hedge accounting.

Within the scope of cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is accounted for in the balance sheet under "the portion of derivative financial assets measured at fair value through profit and loss" or "the portion of derivative financial liabilities measured at fair value through profit and loss", respectively depending on the fair values being positive or negative and effective portions in the equity under " Other Compherensive Income Items to be recycled to profit and loss" and ineffective portions in the income statement under "profit / loss from derivative financial transaction". In the periods in which the cash flows (interest expenses) of the hedged item affects the income statement, the profit/ loss of the hedging instrument is recycled to the income statement from equity.

A prospective test is performed at the beginning of the hedge accounting and both retrospective and prospective test are performed at each reporting period with Dollar off-set method. According to this method, hedge accounting continues when the result is within a range of 80-125% effectiveness. Depending on the calculated effectiveness ratio, hedging relationship is accounted in accordance with IAS 39 rules.

In case the hedging instrument is not continued due to the termination, realization, sale, termination of hedge accounting or ineffectiveness of the effectiveness test; hedge accounting is terminated. In such cases, the profit/loss accounted under shareholders' equity in cash flow hedge accounting continues to be accounted for under "Other comprehensive income items to be recycled to profit or loss" within equity until the realization of the cash flows of the hedged item. When the cash flows related to the hedging item are realized, the profit/loss accounted under equity is classified in the income statement taking into account the original maturity of the hedging instrument.

Renewal of a hedging instrument or transfer to another hedging instrument if it is part of a hedging strategy does not remove the hedging relationship.

2. Summary of significant accounting policies (continued)

F. Derivative financial instruments (continued)

Prior period accounting policies for derivative financial instruments

The Bank's derivative instruments consist of options, foreign currency and interest swaps and forward foreign currency buy/sell transactions. Derivative instruments are accounted for at their fair values as of the contract date and subsequently valued at fair value. Certain derivative instruments, although economical hedges, are accounted as trading transactions since they are not qualified to be a hedging instrument as per "Financial Instruments: Recognition and Measurement" ("IAS 39"). There are no embedded derivatives separated from the host contract or that are designated as hedging instruments as of the balance sheet date.

Interest income and expenses on swap transactions are presented in interest income or expense.

G. Expected Credit Losses

The Bank allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of January 1, 2018, the Bank recognizes provisions for impairment in accordance with IFRS 9 requirements according to the Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside published in the Official Gazette dated 22 June 2016 numbered 29750.

In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA is changed by applying the expected credit loss model under IFRS 9 starting from the transition date. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

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

Stage 1:

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

Stage 2:

In the event of a significant increase in credit risk since initial recognition or if the financial asset is overdue between 30 days and 90 days or restructured, the loans are transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses.

Stage 3:

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

The collections made related to loans for which provision is made in the current period are reversed from the "Allowance for expected credit losses" account in the income statement. The collections made related to loans written-off and monitoring of off balance sheet or provisioned in prior years are recorded to "Collections Related to the Prior Period Expenses" under "Other Operating Income" account and related interest income is credited to the "Interest Received from Non-performing Loans" account.

2. Summary of significant accounting policies (continued)

G. Expected Credit Losses (continued)

Calculation of expected credit losses

Expected credit loss calculation is to estimate the allowance of the financial instrument in case of default. If there is a significant increase observed in credit risk between the origination date and the reporting date of the loan according to the defined thresholds, the lifetime PD is used. Accordingly, if there is no significant increase in credit risk the 12-month PD is used for ECL calculation.

Probability of Default (PD)

PD informs the likelihood default over a specified time period. On the basis of credit ratings, 1-year point in time PD of each customer is defined for each portfolio. There are two types of probability of default are calculated according to the staging of the customer.

- **12-Month PD:** it is the estimation of PD occurring within the next 12 months.
- **Lifetime PD:** it is the estimation of PD occurring over the remaining lifetime of the financial instrument.

Internal rating systems are used for non-retail portfolios which include the customers' financial information and the answers to the qualitative questions. In accordance to the assessment of the variables, assigning of rating and PD are achieved. Retail portfolio is assessed as collectively where probability of rolling to Stage 3 is projected. Accordingly, ECL is calculated.

Loss Given Default (LGD)

LGD represents the amount of economic loss if a loan defaults. Bank uses the collaterals with a haircut on the collateral values and on appraisal values. For the remaining or unsecured portfolios Bank has calculated the recovery and cure rates for each portfolio and taken into account the time value of money by discounting the of these recoveries according to the default date.

Exposure at Default (EAD)

EAD informs an estimate of the exposure to credit risk at the potential default date during the lifetime of a financial instrument. The expected default amount is the summation of remaining principal and interest amounts of the loan by its cash flows. The credit conversion factor ("CCF") ranging from 0% to 100% according to features of the product is taken into account for EAD calculation of the non-cash loans and loan commitments.

After expected credit losses are calculated, three different macroeconomic scenarios as "Base "Adverse" and ' 'Favorable" are defined upon macroeconomic factors and the weighted average of the results of these model based scenarios is taken into account as forward-looking approach. The Bank periodically reviews the parameters included in macroeconomic model and updates them if necessary.

ECL Calculation for Stage 3:

Lifetime expected credit losses are booked for the loans considered as impaired. While calculating the ECL amount as provision for financial assets in Stage 3, individual assessment is performed by discounting the expectations on collection for financial instruments. The uncovered remaining amount is set aside as provision for non-retail portfolio.

2. Summary of significant accounting policies (continued)

H. Repurchase and reverse repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are not derecognized from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within funds obtained under repo agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest expense and amortized over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell ("reverse repos") are recorded as money market placements. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

I. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and accumulated impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

Buildings	50 years
Safety box	50 years
ATM	10 years
Furniture and fixtures and motor vehicles	5 years
Office equipment	3-4 years

Gain or loss resulting from disposals of the property and equipment is reflected to the income statement as the difference between the net proceeds and net book value.

Normal maintenance and repair cost of the properties are expensed.

There is no pledge, mortgage or any other lien on property and equipment.

J. Other intangible assets

Other intangible assets are accounted for at cost less accumulated amortization. Other intangible assets are amortized with straight-line method based on their economic lives.

As of the balance sheet date, all software is purchased and there are no completed or continuing software development projects by the Bank internally.

K. Accounting for leases as lessee

Tangible fixed assets acquired by financial leases are accounted for in accordance with IAS 17. In accordance with this standard, the leasing transactions, which consist only foreign currency liabilities, are translated to Turkish Lira with the exchange rates prevailing at the transaction dates and they are recorded as an asset or a liability. The financing cost resulting from leasing is distributed through the lease period to form a fixed interest rate.

In addition to the interest expense, the Bank records depreciation expense for the depreciable leased assets in each period.

Operating lease payments are recognized as expense in the income statement on a straight line basis over the lease term. As of December 31, 2018 the Bank has operational lease agreements for some of its branches and rent expense for them is amounting to TL 83.696.

As of the balance sheet date, the Bank does not have authorization for any financial leasing transactions as lessor.

2. Summary of significant accounting policies (continued)

L. Financial liabilities

Financial liabilities including deposits from banks, customer deposits and other borrowed funds are recognized initially at fair value plus, transaction costs that are directly attributable to the issue of the financial liability. Subsequently, financial liabilities are measured at amortized cost, using the effective interest rate, except for financial liabilities designated at fair value. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

M. Income taxes

(i) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Taxes other than on income are recorded within other operating expenses (Note 24).

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Bank. Deferred income tax assets resulting from temporary differences, carry forward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 16).

Deferred tax related to fair value remeasurement of financial assets at fair value through other comprehensive income, which are recognized in other comprehensive income, is also recognized in the other comprehensive income.

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

N. Retirement benefit obligations

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30-day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS 19 “International Accounting Standard on Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method.

The Bank has no retirement fund or foundation that the employees are the member of.

2. Summary of significant accounting policies (continued)

N. Retirement benefit obligations (continued)

Defined Contribution Plans

The Bank pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Short-term Employee Benefits

In accordance with IAS 19 "International Accounting Standard on Employee Benefits"; the expected cost of accumulating paid absences are measured as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

O. Provisions, contingent assets and contingent liabilities

Provisions are recognized when there is a present obligation due to 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. Provisions are determined by using the Bank's best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

P. Interest income and expense

Interest income and expenses are recognized in the statement of income on an accrual basis using the effective interest rate method. Starting from January 1, 2018, Bank has started accruing interest income on non-performing loans. Net book value of the non-performing loans (Gross Book Value – Expected Credit Loss) are accrued through effective interest rate. Effective interest rate is also used during the calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. Therefore, a reclassification is made between the accounts of "expected credit losses" expense and "interest income from loans" for such calculated interest amount.

R. Fee and commission income and expense

All fees and commission income/expenses are recognized as income at the time of realization and during the period where the service is provided. Loan related fees and commissions paid to or received from the other institutions are considered as an integral part of the effective interest rate of a financial instrument and accounted as accrual basis. 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.

S. Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

2. Summary of significant accounting policies (continued)

T. Acceptances

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as probable commitments in off-balance sheet accounts.

U. Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards.

V. Cash and cash equivalents

The cash and cash equivalents comprise balances with original maturities less than 90 days including cash and balances with the central banks excluding reserve requirements, reverse repo transactions and loans and advances to banks (Note 5).

Y. Non- Current Assets Held for Sale and Discontinued Operations

Property and equipment held-for-sale consist of tangible assets that were acquired due to non-performing receivables, and are accounted in the unconsolidated financial statements in accordance with the regulations of Non-current Assets Held for Sale and Discontinued Operations (IFRS 5)".

As of December 31, 2018 the Bank has TL 238.525 assets held for sale (December 31, 2017: TL 170.946).

The Bank, in some portion of the foreclosed assets, provides repurchase right to the debtor. As of December 31, 2018, the right of repurchase value of assets of the Bank is TL 109.922. (31 December 2017: TL 79.220).

Z. Adoption effect of IFRS 9 Financial Instruments

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

Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and interest" (SPPI).

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

2. Summary of significant accounting policies (continued)

Z. Adoption effect of IFRS 9 Financial Instruments (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank consider:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

The Bank fulfills the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVTPL"), amortized cost or fair value through other comprehensive income ("FVOCI"). As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under IAS 39.

Explanations of the effect from Bank's application of IFRS 9 can be found below:

a) Classification and measurement of financial assets

	Before IFRS 9		In scope of IFRS 9	
	Measurement Bases	**Book Value**	**Measurement Bases**	**Book Value**
Financial Assets		**December 31, 2017**		**January 1, 2018**
Cash and Balances with the Central Bank	Measured at amortized cost	3.731.820	Measured at amortized cost	3.731.820
Banks and Money Markets	Measured at amortized cost	3.180.491	Measured at amortized cost	3.180.467
Marketable Securities	Fair value through profit and loss	775.195	Fair value through profit and loss	760
Marketable Securities	Fair value through other comprehensive income	1.262.433	Fair value through other comprehensive income	782.336
Marketable Securities	Measured at amortized cost	447.133	Measured at amortized cost	1.736.738
Derivative Financial Assets	Fair value through profit and loss	421.116	Fair value through profit and loss	421.116
Loans (Gross)	Measured at amortized cost	23.077.150	Measured at amortized cost	23.077.150

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

2. Summary of significant accounting policies (continued)

Z. Adoption effect of IFRS 9 Financial Instruments (continued)

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

Financial Assets	**Book value before IFRS 9 December, 31, 2017**	**Reclassifications**	**Remeasurements**	**Book value after January 1, 2018**
Fair value through P/L				
Balance before classification (held for trading)	775.195	-	-	-
Classified to fair value through other comprehensive income	-	(774.435)	-	-
Book value after classification	-	-	-	760
Fair Value Through Other Comprehensive Income				
Balance before classification (available for sale)	1.262.433	-	-	-
Classified from held for trading	-	774.435	-	-
Classified to Amortized Cost	-	(1.254.532)	-	-
Book value after classification	-	-	-	782.336
Measured at amortized cost				
Balance before classification (held-to-maturity)	447.133	-	-	-
Classified from fair value through other comprehensive income	-	1.254.532	35.083	-
Book value after classification	-	-	-	1.736.738

The reasons for the classification of certain financial assets held by the Bank as above in accordance with the IFRS 9 classification and measurement provisions are explained below:

1) Financial assets classified as fair value through other comprehensive income according to IFRS 9:

The Bank has reassessed the management model for the collection of contractual cash flows in the security portfolio or for the sale of the financial assets and cash flows depending on the contract. The Bank has classified the securities portfolio amounting TL 774.435, which were classified as measured at amortized cost, as fair value through other comprehensive income due to the reason that appropriate management model of those marketable securities have the purpose of collecting cash flows or selling financial assets.

2) Financial assets measured at amortized cost in accordance with IFRS 9:

The Bank has classified securities, which are classified as available-for-sale financial assets, amounting to TL 1.254.532 in share capital, has been reclassified as measured at amortized cost since the date of transition, as the contractual cash flows, including interest payments on principal and principal balance, are for the purpose of accounting.

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

2. Summary of significant accounting policies (continued)

Z. Adoption effect of IFRS 9 Financial Instruments (continued)

c) Reconciliation of the opening balances of the provision for expected credit losses to IFRS 9

The table below shows the reconciliation of the provision for impairment of the Bank as of December 31, 2017 and the provision for the expected loss model as measured in accordance with IFRS 9 as of January 1, 2018.

	Book value before IFRS 9 December 31, 2017	Remeasurements	Book value after IFRS 9 January 1, 2018
Loans (**)	**623.463**	**798.826**	**1.422.289**
Stage 1 and Stage 2	170.470	803.220	973.690
Stage 3	452.993	(4.394)	448.599
Financial assets (*)	**27.729**	**(13.200)**	**14.529**
Total	**651.192**	**785.626**	**1.436.818**

(*) Within the scope of IFRS 9, provisions include provisions for Amortized Cost, Fair Value through Other Comprehensive Income, Receivables from Banks and Receivables from Money Markets.
(**) Loans balance includes non-cash loans.

d) Effects on equity with IFRS 9 transition

According to paragraph 15 of Article 7 of IFRS 9 Financial Instruments Standards, it is stated that it is not compulsory to restate previous period information in accordance with IFRS 9 and if the previous period information is not revised, it is stated that the difference between the book value of 1 January 2018 at the date of application should be reflected in the opening aspect of equity. The explanations about the transition effects to IFRS 9 presented in the equity items under the scope of this article are given below:

The amounting to TL 785.626 difference which is an expense between the provision for impairment of the previous period of the Bank and the provision for loss that is measured in accordance with IFRS 9 impairment model as of 1 January 2018 is classified as "Retained Earnings" in shareholders' equity. The Bank management initiated an application of individual assessment to certain significant credit customers classified in Stage 2 within the framework of IFRS 9 Standard in the fourth quarter of 2018 and reassessed “Significant increase in credit risk” provision accordingly. The Bank management accounted for an additional provision amounting to TL 625 million based on the initiated individual assessment approach at IFRS 9 transition and together with deferred tax asset amounting to TL 125 million regarding to this additional provision is recognized as an opening adjustment in the "Retained Earnings" in equity as of 1 January 2018.

For general provisions (IFRS 9 expected loss provisions for the loans at first and second stages), deferred tax assets calculation has started as of 1 January 2018. Within this scope, deferred tax assets amounting to TL 156.286 have been reflected to the opening financial statements of January 1, 2018 and the related amount has been classified under "Retained Earnings" in shareholders' equity.

The negative difference after tax effect amounting to TL 35.083, regarding the securities amounting TL 1.254.532 previously being classified as available-for-sale and classified to financial assets measured at amortized cost as of January 1, 2018 with the IFRS 9 transition is removed from “Other Reserves” against the fair value of the financial asset.

2. Summary of significant accounting policies (continued)

AA. Segment reporting

The Bank provides a full range of banking services and operates in Corporate and Commercial Banking, SME Banking, Retail Banking and Treasury and Capital Markets business segments. These segments have been determined by considering customer types, size and needs and in accordance with the Bank's organizational structure where the profitability, on the basis of account, customer, customer relationship manager, branch segment and product is generated and followed.

Below are the detailed explanations on business segments:

Corporate and Commercial Banking:

Odeabank offers a wide range of corporate and commercial banking products to clients and benefits from the Group's regional strength and network of corporate banking operations, particularly in the MENA region. As at December 31, 2018, Odeabank had a corporate and commercial cash loan portfolio of TL 14.6 billion and a deposit portfolio of TL 2.7 billion.

SME Banking:

In 2018 SME Banking continued to carry out operations for the SMEs. As at year-ended 2018, outstanding cash loans amounted to TL 2.6 billion.

Retail Banking:

Odeabank offers a full range of retail products and services, including conventional checking and savings accounts, fixed-term deposits, loans and housing loans, credit cards and bancassurance products. Odeabank's retail banking activities are offered through three principal divisions: wealth management, debt and credit cards and consumer loans. As at December 31, 2018, Odeabank's retail banking division operated from 45 branches and had more than 513,000 active customers. As at December 31, 2018, Odeabank had a retail deposit portfolio of TL 15.2 billion.

Wealth Management

Odeabank's wealth management division invests customer's savings in fixed income instruments, such as deposits and bonds or Eurobonds, mutual funds, equities and alternative investment vehicles, such as derivative products.

Debit and Credit Cards

Odeabank takes into account the needs of its customers while developing its debit and credit card offering, whilst also enabling fast and convenient access to these products. Odeabank Private Card,which is designed for high-income customers in mind, and Bank'O Atlas credit card, which enables frequent travelers to accumulate miles with both flights and shopping, are part of Odeabank's debit and credit card portfolio.

Consumer Loans

As part of its consumer loan activities, Odeabank offers various consumer loan products, including low-interest, low-fee and no-fee general purpose loans, ready-cash fast loans, overdraft accounts for emergency use, mortgage products and housing loans and car loans. As at December 31, 2018, Odeabank had a retail loan portfolio of TL 1.5 billion.

Treasury and Capital Markets:

Odeabank conducts treasury and capital markets activities through its balance sheet management unit (which is responsible for ensuring that the domestic and foreign currency liquidity levels of Odeabank are maintained in a sustainable and healthy way in compliance with applicable laws and regulations), markets unit (which trades in interbank markets in line with the profit goals and limits determined by Odeabank's Board of Directors), and treasury sales unit (which prices transactions, including spot foreign exchange, forward foreign exchange, arbitrage, forward arbitrage, foreign exchange/interest rate swaps, treasury bills, government bonds, Eurobonds and cross currency swaps, as well as designs and offers structured products).

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

2. Summary of significant accounting policies (continued)

AA. Segment reporting (continued)

December 31, 2018

1- Segment information

	Corporate and Commercial and SME Banking	Retail	Treasury and Capital Markets	Others	TOTAL
Net interest income	**568.495**	**219.193**	**120.995**	**174.706**	**1.083.389**
Non-Interest income					
Commissions	74.189	58.182	(1.703)	(11.762)	**118.906**
FX Operations & Financial operations	(3.986)	21.786	49.735	(74.699)	**(7.164)**
Other operating income	25.541	55	-	28.322	**53.918**
Total operating income	664.239	299.216	169.027	116.567	**1.249.049**
Expected Credit Loss	(672.960)	(139.385)	-	237.998	**(574.347)**
Net operating income	(8.721)	159.831	169.027	354.565	**674.702**

2 - Financial Position Information

	Corporate and Commercial and SME Banking	Retail	Treasury and Capital Markets	Others	TOTAL
Total Assets	18.193.063	1.637.463	4.638.411	6.878.282	**31.347.219**
Total Liabilities	5.117.074	15.552.063	4.921.387	5.756.695	**31.347.219**

December 31, 2017

1-Segment information

	Corporate and Commercial and SME Banking	Retail	Treasury and Capital Markets	Others	TOTAL
Net interest income	**654.165**	**245.727**	**21.595**	**212.147**	**1.133.634**
Non-Interest income	**85.753**	**68.896**	**7.872**	**189.113**	**351.634**
Commissions	107.750	51.732	(2.528)	(1.346)	**155.608**
FX Operations & Financial operations	(21.997)	17.164	10.400	176.427	**181.994**
Other operating income	-	-	-	14.032	**14.032**
Total operating income	**739.918**	**314.623**	**29.467**	**401.260**	**1.485.268**
Loan loss provisions	(226.902)	(177.533)	-	-	**(344.435)**
Net operating income	**513.016**	**137.090**	**29.467**	**401.260**	**1.140.833**

2 - Financial Position Information

	Corporate and Commercial and SME Banking	Retail	Treasury and Capital Markets	Others	TOTAL
Total Assets	19.407.521	3.002.120	5.622.682	4.931.477	**32.963.800**
Total Liabilities	6.820.104	16.994.776	3.393.822	5.755.098	**32.963.800**

3. Significant accounting judgments, estimates and assumptions

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4).

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the significant judgments (apart from those involving estimations) with the most significant effect on amounts recognized in the financial statements are as follows:

Expected credit losses

The calculaton of expected credit losses as disclosed in Note 2.G.

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values (Note 8).

Tax legislation

Turkish tax legislation is subject to varying interpretations as disclosed in Note 16.

Deferred income tax asset recognition

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

The principal temporary differences arise from the difference between the carrying value and tax base of property, plant and equipment, valuation difference on trading and investment securities, remeasurement of financial assets and liabilities at fair value, provision for loan losses and provision for employment termination benefits. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (Note 16).

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

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

4. Financial risk management

The Bank's Risk Management Unit was established as an independent unit which reports to the Member of Audit Committee who is responsible for the Audit, Internal Control and Risk Management.

Risk management is committed to control processes in order to determine the limits and measurement of operational risks, including the risks comprising of credit, market, interest rate, concentration, counterparty, banking accounts and IT risks.

Risk Management regularly reports to Senior Management and the Audit Committee all the risks the Bank is exposed to and concentrations, and the Bank's own internal limits of the legal limits are monitored daily, weekly, monthly and quarterly. These reports consist of, market risk limits, liquidity and interest rate, credit risk analysis and capital adequacy analysis and daily value at risk (VAR) analysis. These reports are also presented to Asset-Liability Management Committee Audit committee on a monthly basis. Financial instruments in the Bank's portfolio are closely monitored and reported on a daily basis against volatility and market values of market risk instruments.

Monthly scenario analysis on economic capital, capital adequacy, liquidity and profitability scenarios and credit risk on Bank's loan portfolio including benchmark of similar banks are presented to the Audit Committee. Management follows the Bank's performance and the limits by using these detailed reports.

Risk Management Group calculates Basel II capital adequacy calculation, namely Credit Risk, Market Risk and Operational Risk, in accordance with "Regulation on Measurement and Assessment of Capital Adequacy of Bank's" published in the Official Gazette dated June 28, 2012 numbered 28337".

At the Bank, banking processes and policies were established by considering Regulation on the Internal Systems of Banks published in the Official Gazette No. 28337 dated June 28, 2012. Consequently, related procedures/policies are formed and then approved by the Board of Directors at August 2012.

In order to manage operational risks that the Bank is exposed to more effectively and to form an integrated risk management point of view, Operational Risk Policy and IT Continuity Plan was updated.

In order to define, measure, limit and report market risk the Bank is exposed to, Market Risk Policy is formed. When the Bank manages its treasury securities portfolio within the limits determined by the Board of Directors, Risk Management Group checks whether Treasury Department is within these risk limits.

Liquidity Risk is the risk that the Bank cannot fulfill its payment obligations fully and on time due to its insufficient cash inflow or due to inadequate available cash resulting from the mismatch between cash inflows and outflows. In order to define, measure, follow, report the liquidity risk the Bank is exposed to and take necessary actions for the results Liquidity Risk Policy format was prepared with an ongoing and forward-looking basis.

Concentration risk is the risk within credit risk that is exposed according to individual debtor and debtor groups, to debtor groups that indicate similar characteristics in terms of economic and regional sector qualities, on the basis of the assets subject to the collateral securities similar to the risk that is to be considered also within the scope of the market risk and operational risk. In order to define, measure, follow and manage the concentration risk the Bank is exposed to, Concentration Risk Policy is formed. Concentration limits are monitored in compliance with the credit, deposit and related policies.

4. Financial risk management (continued)

Counterparty credit risk refers to the default risk of the counterparty of the transaction before the last payment in the cash flow of this transaction of which brings an obligation to both sides. In order to define, measure, follow and manage the counterparty credit risk the Bank is exposed to Counterparty Credit Risk and Clearing Risk Policy is formed. Counterparty credit risk management is conducted by the Financial Institutions Department of the Bank by taking into account the counterparty's financial reports, general overview, rating, current and expected transaction volumes. The limits for counterparties are determined by the Board of Directors.

"Banking Book" includes all Assets and Liabilities (including credit) except trading securities portfolio. In order to define, measure, follow, report the interest rate risk related to banking book risk the Bank is exposed to and take necessary actions for the results, interest rate risk policy related to banking book is formed. Interest rate risk is managed by senior management in order to avoid losses from adverse interest rate movements.

Within internal capital management scope, the Bank has established a stress test based management by taking into account the estimated maximum loss amount that may occur in credit, operational, market and other risks as well as the changes in the market. Risk Management Procedure is formed in such a way that it includes all the definitions above.

Bank carries out risk mitigation processes and risk hedging for credit risk in accordance with credit risk policies. Risks related to market risk are measured and monitored in accordance with application procedures and policies. In this respect the limits are allocated by the Board of Directors. Limits are monitored, reported, in the event of any limit exceed it is reported to relevant committees and units through documentation by electronic mail. In addition, information about limits on use and loan segment concentration is presented to Audit Committee and the Board of Directors on quarterly.

A. Credit risk

Credit risk is the risk that the Bank is a party in a contract whereby the counterparty fails to meet its obligation and cause to incur a financial loss.

The credit allocation is performed on a debtor and a debtor group basis within the limits and updated on a defined frequency based on market developments. In the credit allocation process, many financial and non-financial criteria are taken into account within the framework of the internal rating procedures of the Bank. These criteria include geographical and sector concentrations. The sector concentrations for loans are monitored closely. In accordance with the Bank's loan policy, the rating of the companies, credit limits and guarantees are considered together, and credit risks incurred are monitored.

Risks and limits related to treasury activities and customer based commercial activities are monitored daily. Moreover, the limits of the correspondent banks that are determined by their ratings and the control of the maximum acceptable risk level in relation to the equity of the Bank are monitored daily. Risk limits are determined in connection with these daily transactions, and risk concentration is monitored systematically concerning off-balance sheet operations.

4. Financial risk management (continued)

Most of the statement of accounts for the loans has been tried to derive from audited financial statements. The unaudited documents result from the timing differences between the loan allocation and the audit dates of the financial statements of the companies and subsequently the audited financial statements are obtained from the companies when the companies are audited. Credit limits are determined according to the audited statement of accounts, and guarantee factors are developed in accordance with the decision of the credit committee considering the characteristics of the transactions and the financial structures of the companies.

For the forward transactions and other similar positions of the Bank, operational limits are set by the Board of Directors and the transactions take place within these limits.

The fulfillment of the benefits and acquirements related to forward transactions is normally realized at maturity. However, in order to minimize the risk, counter positions of existing risks are entered into in the market.

As of December 31, 2018, the proportion of the Bank's top 100 and 200 cash loan customers' in total cash loans is 69% and 81% respectively.

As of December 31, 2018, the proportion of the Bank's top 100 and 200 customers' non-cash loan balances in total non-cash loans is 90% and 97%.

4. Financial risk management (continued)

Bank's rating system:

Internal credit rating system is used by The Bank. As a basis for the rating classification; financial data of customers has been processed by the MRA - Moody's Risk Analyst software and output rate is considered.

The risks that are subject to rating models can be allocated as follows.

Rating	Risk Grade	Description
(1) Excellent	1	Exceptional business credit, judged to be of the highest quality, with minimal credit risk. Superior asset quality and financial capacity; excellent and proven management; market leader.
(2) Strong	2+ 2 2-	Very good business credit with very good asset quality, consistently strong liquidity and debt capacity; highly regarded in the industry with strong market share.
(3) Good	3+ 3 3-	Good business credit considered upper-medium grade, subject to low credit risk; good asset quality, strong liquidity and debt capacity. Company is above average size and holds a good position in the industry.
(4) Satisfactory	4+ 4 4-	Acceptable business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher than average risk characteristics. Company has demonstrated adequate to good performance.
(5) Adequate	5+ 5 5-	Average to low business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher risk characteristics. Company has demonstrated adequate performance.
(6) Marginal	6+ 6 6-	Below average business credit subject to high credit risk. Company is likely a lower tier competitor in its industry. Acceptable but requiring close monitoring and support of strong risk mitigants.
(7) Vulnerable	7+ 7 7-	Weak business credit: Judged to be of poor standing and subject to very high credit risk. Constitutes undue and unwarranted credit risk. Currently in performing status not to the point of justifying a Substandard classification.
(8) Substandard	8	Substandard (Default): Unacceptable business credit with normal repayment in jeopardy.
(9) Doubtful	9	Doubtful (Default): Full repayment questionable. Serious problems to the point where partial loss of principal is likely.
(10) Loss	10	Loss (Default): Expected loss. Such an asset may have recovery but not to the point of avoiding loss classification.

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

4. Financial risk management (continued)

Below table shows the portion of the performing cash loans as per BRSA's scale that is equivalent to the MRA ratings:

December 31, 2018

Debtors financial Position	Degree	Portion
Debtor has a solid financial position	1	2%
Debtor has a good financial position	2	50%
Debtor's financial position is at risk within short and medium term	3	40%
Debtor's financial position is at high risk within short term	4	0%
Debtor has been defaulted	5	0%
Debtor has not been rated	6	8%

December 31, 2017

Debtors financial Position	Degree	Portion
Debtor has a solid financial position	1	3%
Debtor has a good financial position	2	56%
Debtor's financial position is at risk within short and medium term	3	28%
Debtor's financial position is at high risk within short term	4	0%
Debtor has been defaulted	5	0%
Debtor has not been rated	6	13%

Maximum exposure to credit risk

	2018	2017
Credit risk exposures relating to assets on-statement of financial position:		
Cash and balances with central banks	4.070.971	3.731.820
Due from banks	2.447.101	437.622
Money market placements	740.121	2.742.869
Loans and advances to customers	18.556.247	22.465.253
- Retail (net)	1.463.445	2.632.137
- Corporate and Commercial (net)	13.983.922	15.062.511
- SME (net)	3.108.880	4.770.605
Financial assets at fair value through profit or loss	1.088.570	1.196.311
- Financial assets held for trading	3.269	775.195
- Derivative financial instruments	1.085.301	421.116
Investment securities	2.986.100	1.709.566
- Financial assets at fair value through other comprehensive income(*)	304.898	1.262.433
- Financial assets measured at amortized cost(**)	2.681.202	447.133
Other assets	797.652	224.763
Credit risk exposures relating to off-balance sheet items:		
Bank acceptance loans	651.057	142.251
Letters of credit	669.337	845.476
Letter of guarantee	1.795.569	1.460.185
Other guarantees	569.819	129.978
Other commitments	8.465.346	1.498.730

(*) Classified as “Available for sale financial assets” as of December 31, 2017.
(**) Classified as “Held to maturity” as of December 31, 2017.

The above table represents a worst case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

The main types of collaterals obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, mortgages over real estate properties, cash, guarantee letters, securities, pledges or guarantees
- For retail lending, mortgages over residential properties or pledges on vehicles

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement when necessary.

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

4. Financial risk management (continued)

Collateral Distribution (*)

31 December 2018	**Corporate and Commercial**	**SME**	**Retail**	**Total**
Deposit	198.739	129.713	26.900	355.352
Mortgage	7.122.254	2.361.805	437.828	9.921.887
Assignment of claim	3.385.383	176.548	-	3.561.931
Cheque	228.444	84.496	-	312.940
Pledge of vehicle	85.259	79.229	19.262	183.750
Total	**11.020.079**	**2.831.791**	**483.990**	**14.335.860**

31 December 2017	**Corporate and Commercial**	**SME**	**Retail**	**Total**
Deposit	220.133	111.049	50.049	381.231
Mortgage	7.206.755	3.098.836	640.013	10.945.604
Assignment of claim	2.950.988	190.639	-	3.141.627
Cheque	162.016	166.986	-	329.002
Pledge of vehicle	132.051	86.633	52.380	271.064
Total	**10.671.943**	**3.654.143**	**742.442**	**15.068.528**

(*) Represents the amounts of the exposures covered by these collaterals.

The details of the loans and advances past due but not impaired which are classified under the performing loans are as follows;

Information on past due but not impaired loan and other receivables:

31 December 2018	**Corporate and Commercial**	**SME**	**Retail**	**Total**
Not past due and 30 days past due	13.702.942	1.895.955	1.294.686	**16.893.583**
30-60 days past due	515.261	250.269	98.893	**864.423**
60-90 days past due	418.146	497.559	62.978	**978.683**
Delayed over +90 days (*)	-	-	-	-
Total	**14.636.349**	**2.643.783**	**1.456.557**	**18.736.689**

31 December 2017	**Corporate and Commercial**	**SME**	**Retail**	**Total**
Not past due and 30 days past due	13.498.849	3.938.782	2.310.970	19.748.601
30-60 days past due	1.018.203	485.407	227.400	1.731.010
60-90 days past due	91.755	134.300	60.834	286.889
Delayed over +90 days (*)	235.178	-	-	235.178
Total	**14.843.985**	**4.558.489**	**2.599.204**	**22.001.678**

(*) The Bank classifies loans that are more than 90 days of overdue as non-performing and books specific provisions on month-ends. Exceptional cases that are due to legal procedures delaying restructuring or the creditor's ongoing processes with the Guarantor may result in corporate, commercial and sme loans being more than 90 days overdue.

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

4. Financial risk management (continued)

Sectoral risk breakdown of financial instruments

The Bank uses BRSA definitions for the economic sectors in order to be able to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the credit policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

December 31, 2018

	Central Banks and Central Governments	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Professional services	Total
Cash and balances with central bank	4.070.971	-	-	-	-	-	-	**4.070.971**
Due from banks	-	-	-	2.447.101	-	-	-	**2.447.101**
Trading securities – debt securities	-	-	-	-	-	-	-	**-**
Derivative financial instruments	-	25	10.753	954.221	57.903	21.352	41.047	**1.085.301**
Financial assets at fair value through profit and loss	3.269	-	-	-	-	-	-	**3.269**
Investment securities – financial assets at fair value through other comprehensive income	304.898	-	-	-	-	-	-	**304.898**
Investment securities – financial assets measured at amortized cost	2.681.202	-	-	-	-	-	-	**2.681.202**
As of December 31, 2018	**7.060.340**	**25**	**10.753**	**3.401.322**	**57.903**	**21.352**	**41.047**	**10.592.742**

December 31, 2017

	Central Banks and Central Governments	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Professional services	Total
Cash and balances with central bank	3.731.820	-	-	-	-	-	-	**3.731.820**
Due from banks	-	-	-	437.622	-	-	-	**437.622**
Trading securities – debt securities	-	-	-	-	-	-	-	**-**
Derivative financial instruments	-	532	6.593	352.322	30.040	15.859	15.770	**421.116**
Financial assets at fair value through profit and loss	775.195	-	-	-	-	-	-	**775.195**
Investment securities – available for sale securities	1.262.433	-	-	-	-	-	-	**1.262.433**
Investment securities – held-to-maturity securities	447.133	-	-	-	-	-	-	**447.133**
As of December 31, 2017	**6.216.581**	**532**	**6.593**	**789.944**	**30.040**	**15.859**	**15.770**	**7.075.319**

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

4. Financial risk management (continued)

The following tables provide a summary of the Bank's restructured loans;

December 31, 2018

	Loans under restructuring	Not under the scope of restructuring	Total
Watchlist	1.062.542	3.082.792	4.145.334
Significant Increase in Credit Risk	42.448	1.846.439	1.888.887
Total	**1.104.990**	**4.929.231**	**6.034.221**

Sectoral risk breakdown of cash and non-cash loans of the Bank are as follows;

December 31, 2018

	Cash Loans	Non-Cash Loans
Real Estate / Shopping Mall / Commercial Units	4.560.800	-
Wholesale & Retail	2.375.225	-
Others in Manufacturing Industry	1.823.106	1.461.244
Tourism	1.834.172	84.722
Real Estate Dealing	1.445.938	615.323
Electric & Gas & Water Resources	1.882.487	290.704
Textile	690.107	-
EPC (*)	645.837	539.489
Other Personal Services	622.825	5.914
Social Service And Health Services	558.175	52.912
Metal Industry	639.828	-
Transportation, Storage & Communication	420.319	229.725
Food And Beverage Industry	272.828	-
Mining Industry	163.902	45.849
Farming, Forest And Hunting	124.962	226.043
Machinery And Equipment	244.775	-
Education	107.592	15.258
Finance	62.659	118.599
Other	20.152	-
Fishing	60.558	-
Public Administration and National Defence	-	-
Total	**18.556.247**	**3.685.782**

(*) Engineering, Procurement and Construction

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

4. Financial risk management (continued)

December 31, 2017

	Cash Loans	Non-Cash Loans
Real Estate / Shopping Mall / Commercial Units	5.257.555	460.664
Electric & Gas & Water Resources	4.648.012	-
Wholesale & Retail	1.720.931	846.810
Others in Manufacturing Industry	1.706.579	45.522
Real Estate Dealing	1.628.580	-
Tourism	1.593.834	234.570
EPC (*)	981.834	-
Textile	850.014	510.417
Other Personal Services	747.632	7.512
Transportation, Storage & Communication	596.845	35.022
Metal Industry	559.392	-
Food And Beverage Industry	492.584	172.685
Other	422.662	-
Farming, Forest And Hunting	368.658	50.196
Social Service And Health Services	268.491	102.766
Mining Industry	229.312	-
Machinery And Equipment	179.686	69.763
Education	112.302	41.963
Finance	60.270	-
Fishing	40.080	-
Public Administration and National Defence	-	-
Total	**22.465.253**	**2.577.890**

(*) Engineering, Procurement and Construction

Geographical Information

The Bank's geographical information is based on the location of the Bank's assets. Substantially all of the Bank's activities are conducted in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The Bank conduct substantially all of its business activities with local customers in Turkey.

B. Market risk

The Bank has defined market risk management operations and taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" which was published in the Official Gazette on June 28, 2012 numbered 28337 and "Regulation Regarding Banks' Shareholders' Equity".

The Board of Directors determines the limits for the basic risk that the Bank is exposed to. Those limits are revised periodically in line with the market forces and strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management division and senior management has taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

Interest rate and exchange rate risks, arising from the volatility in the financial markets are measured, and in the computation of capital adequacy, the amount subject to risk calculated by using the standard is taken into consideration.

The major measurement techniques used to measure and control market risk are outlined below.

(a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Risk Management, also indicated in the market risk policy of the Bank, include: FX and interest rate stress testing, where stress movements are applied to the FX position and to the banking book. The results of the stress tests are reviewed by ALCO.

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

4. Financial risk management (continued)

i) Foreign exchange risk

Foreign currency risk indicates the probability of loss that the Banks is subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration and value at risk is calculated by using the standard method.

The Board of Directors sets limits for the positions and stop losses which are followed up daily and weekly. Any possible changes in the foreign currency transactions in the Bank's positions are also monitored.

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

December 31, 2018

				Foreign currency
	EUR	**USD**	**Other**	**Total**
Assets				
Cash and balances with central banks	1.173.885	1.426.098	376.175	2.976.158
Due from banks	144.608	1.226.926	7.519	1.379.053
Money market placements	-	-	-	-
Financial assets at fair value through profit or loss (*)	-	-	-	-
- Financial Assets at Fair Value through Profit and Loss	-	-	-	-
- Derivative financial instruments	-	-	-	-
Loans and advances to customers	5.410.104	5.108.006	1.365	10.519.475
Investment securities				
- Financial assets at fair value through other comprehensive income	142	4.659	-	4.801
- Financial assets measured at amortized cost	455.510	1.774.219	1.542	2.231.271
Other assets	82.587	91.455	22	174.064
Total assets	**7.266.836**	**9.631.363**	**386.623**	**17.284.822**
Liabilities				
Deposits	3.604.318	9.300.982	159.909	13.065.209
Debt securities issued, subordinated loans and due to banks	978.918	3.660.364	1.363	4.640.645
Miscellaneous payables	-	-	-	-
Other liabilities	56.740	112.354	133	169.227
Total liabilities	**4.639.976**	**13.073.700**	**161.405**	**17.875.081**
Net balance sheet position	**2.626.860**	**(3.442.337)**	**225.218**	**(590.259)**
Off-balance sheet derivative instruments net notional position	**(2.280.410)**	**3.527.822**	**(235.158)**	**1.012.254**
Net foreign currency position	**346.450**	**85.485**	**(9.940)**	**421.995**

(*) Market to market on Derivative financial assets / liabilities have not been included in the net balance sheet position.

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

4. Financial risk management (continued)

December 31, 2017

				Foreign currency
	EUR	**USD**	**Other**	**Total**
Assets				
Cash and balances with central banks	587.915	1.649.125	4.658	2.241.698
Due from banks	96.375	278.300	53.194	427.869
Money market placements	-	-	-	-
Financial assets held for trading (*)	-	774.435	-	774.435
- Trading securities	-	774.435	-	774.435
- Derivative financial instruments	-	-	-	-
Loans and advances to customers	5.430.663	5.235.875	-	10.666.538
Investment securities				
- Available for-sale	317.536	511.093	-	828.629
- Held-to-maturity	-	447.133	-	447.133
Other assets	528	37.112	2	37.642
Total assets	**6.433.017**	**8.933.073**	**57.854**	**15.423.944**
Liabilities				
Deposits	3.488.816	10.012.327	117.399	13.618.542
Debt securities issued, subordinated loans and due to banks	801.917	3.312.855	-	4.114.772
Miscellaneous payables	122	801	-	923
Other liabilities	83.169	41.843	94	125.106
Total liabilities	**4.374.024**	**13.367.826**	**117.493**	**17.859.343**
Net balance sheet position	**2.058.993**	**(4.434.753)**	**(59.639)**	**(2.435.399)**
Off-balance sheet derivative instruments net notional position	**(1.817.675)**	**4.408.814**	**50.409**	**2.641.548**
Net foreign currency position	**241.318**	**(25.939)**	**(9.230)**	**206.149**

(*)Market to market on Derivative financial assets / liabilities have not been included in the net balance sheet position.

At December 31, 2018, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 5,2978= USD 1, and TL 6,0619= EUR 1

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

Currency risk sensitivity:

The table below represents the sensitivity of the Bank to 10% change of currency exchange rates (USD and EUR). 10% change is the assumption of parity change that may be faced in a possible fluctuation used in the Bank’s stress test scenarios.

	Change in currency rate in %	**Effect on profit or loss (*)**		**Effect on equity(*)**	
		December 31, 2018	**December 31, 2017**	**December 31, 2018**	**December31, 2017**
USD	%10	8.548	(2.594)	8.548	(2.594)
USD	%(10)	(8.548)	2.594	(8.548)	2.594
EUR	%10	34.645	24.132	34.645	24.132
EUR	%(10)	(34.645)	(24.132)	(34.645)	(24.132)

(*) Excluding tax effect.

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

4. Financial risk management (continued)

ii) Interest rate risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk for capital adequacy.

Risk Management Group performs duration, maturity and sensitivity analysis to protect the effect of interest rate volatility and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budget of the Bank. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budgeted targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank whenever necessary.

Since the Bank monitors maturity mismatches very closely a significant interest rate risk exposure is not expected.

The table below summarizes the Bank's exposure to interest rate risk at December 31, 2018. Included in the table are the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

December 31, 2018	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1.617.779	-	-	-	2.453.192	**4.070.971**
Due from banks	1.057.886	-	-	-	1.389.215	**2.447.101**
Financial assets at fair value through profit or loss	-	2.461	555	253	-	**3.269**
Money market placements	740.121	-	-	-	-	**740.121**
Financial assets at fair value through other comprehensive income	-	-	36.464	259.296	9.138	**304.898**
Loans	10.911.658	3.858.235	3.057.006	856.392	(127.044)	**18.556.247**
Financial assets measured at amortized cost	703.003	311.287	1.169.710	518.342	(21.140)	**2.681.202**
Other assets	479.671	388.580	52.491	164.558	1.458.110	**2.543.410**
Total assets	**15.510.118**	**4.560.563**	**4.316.226**	**1.798.841**	**5.161.471**	**31.347.219**
Liabilities						
Bank Deposits	1.152.794	-	-	-	1.783	**1.154.577**
Customer Deposits	18.340.093	778.714	2.227	-	1.285.437	**20.406.471**
Marketable Securities Issued	207.110	-	-	-	-	**207.110**
Subordinated Liabilities	-	-	-	1.636.012	-	**1.636.012**
Funds Provided From Other Financial Institutions	100	925.908	756.975	1.324.299	68.624	**3.075.907**
Other Liabilities	147.642	180.133	511.961	299.484	3.727.922	**4.867.142**
Total liabilities and equity	**19.847.739**	**1.884.755**	**1.271.163**	**3.259.795**	**5.083.767**	**31.347.219**
Net interest repricing gap	**(4.337.621)**	**2.675.808**	**3.045.063**		**(1.460.954)**	**-**
Off-balance sheet derivative instruments long position	22.336.474	5.464.903	3.427.213	5.615.228	-	36.843.818
Off-balance sheet derivative Instruments short position	(21.252.803)	(5.543.736)	(3.821.517)	(6.221.054)	-	(36.839.110)

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

4. Financial risk management (continued)

December 31, 2017	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	3.003.191	-	-	-	728.629	3.731.820
Due from banks	-	-	-	-	437.622	437.622
Money market placements	2.742.869	-	-	-	-	2.742.869
Financial assets at fair value through profit or loss	158.100	218.025	38.976	781.210	-	1.196.311
Loans and advances to customers	10.099.197	4.530.335	6.091.804	1.280.342	463.575	22.465.253
Investment securities						
- Available-for-sale	258.265	-	287.011	709.256	7.901	1.262.433
- Held-to-maturity	-	-	447.133	-	-	447.133
Other intangible assets	-	-	-	-	89.925	89.925
Property and equipment	-	-	-	-	104.383	104.383
Deferred income tax assets	-	-	-	-	90.342	90.342
Assets held for sale	-	-	-	-	170.946	170.946
Other assets	-	-	-	-	224.763	224.763
Total assets	**16.261.622**	**4.748.360**	**6.864.924**	**2.770.808**	**2.318.086**	**32.963.800**
Liabilities						
Deposits	22.832.370	201.480	291	-	876.246	23.910.387
Funds obtained under repurchase agreements	-	-	-	-	-	-
Debt securities issued, subordinated loans and due to banks and money market balances	540.050	1.719.403	293.289	1.564.970	-	4.117.712
Derivative financial instruments	154.370	89.433	157.185	3.483	-	404.471
Current income taxes payable	-	-	-	-	-	-
Other liabilities, other provisions and equity	-	-	-	-	4.531.230	4.531.230
Total liabilities and equity	**23.526.790**	**2.010.316**	**450.765**	**1.568.453**	**5.407.476**	**32.963.800**
Net interest repricing gap	**(7.265.168)**	**2.738.044**	**6.414.159**	**1.202.355**	**(3.089.390)**	**-**
Off-balance sheet derivative instruments long position	15.531.657	7.130.073	2.768.296	356.859	-	25.786.885
Off-balance sheet derivative Instruments short position	(17.784.706)	(5.211.670)	(2.596.504)	(241.778)	-	(25.834.658)

The interest rate risk for all on-balance sheet and off-balance sheet items, which are interest sensitive, and for banking accounts has been calculated. In calculation of interest rate risk, the bank has no any assumptions for early repayment of loans and demand deposits. Interest rate risk arising from banking accounts is calculated and is reported to BRSA monthly.

Economic value differences resulted from interest rate instabilities calculated according to Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method.

Below table summarizes the economic value differences resulting from interest rate volatility calculated according to the Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method of BRSA.

December 31, 2018:

Unit of Currency	Applicable Shock (+ / - base point)	Profit/ Loss	Profit / Regulatory Equity Capital – Loss / Regulatory Equity Capital
TL	500 (400)	(13.450) (16.621)	(0,24) % (0,30) %
EUR	200 (200)	(21.876) (9.862)	(0,40) % (0,18) %
USD	200 (200)	4.005 1.193	0,07 % 0,02 %
Total (For Positive Shock)		**(31.321)**	**(0,57) %**
Total (For Negative Shock)		**(25.290)**	**(0,46) %**

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

4. Financial risk management (continued)

December 31, 2017:

Unit of Currency	Applicable Shock (+ / - base point)	Profit/ Loss	Profit / Regulatory Equity Capital – Loss / Regulatory Equity Capital
TL	500	(527.598)	% (10,49)
	(400)	493.947	% 9,82
EUR	200	(58.668)	% (1,17)
	(200)	(2.872)	% (0,06)
USD	200	17.545	% 0,35
	(200)	(14.885)	% (0,30)
Total (For Positive Shock)		(568.721)	% (11,31)
Total (For Negative Shock)		476.190	% 9,47

The tables below summarises weighted average interest rates for financial instruments by major currencies outstanding at December 31, 2018 and December 31, 2017based on yearly contractual rates.

	December 31, 2018		
	EUR (%)	**USD (%)**	**TL (%)**
Assets			
Cash and balances with central banks	-	2,00	13,00
Due from banks	-	1,46	23,41
Financial assets at fair value through profit and loss	-	-	17,99
Money market placements	-	-	23,98
Financial assets at fair value through other comprehensive income	-	-	35,95
Loans	6,04	8,52	22,65
Financial assets measured at amortized cost	2,06	5,59	14,25
Liabilities			
Bank deposits	1,62	3,83	19,61
Customer deposits	2,42	4,73	22,44
Money market balances	-	-	16,50
Debt securities issued and due to banks	1,67	4,42	8,71
Subordinated liabilities	-	7,63	-

	December 31, 2017		
	EUR (%)	**USD (%)**	**TL (%)**
Assets			
Cash and balances with central banks	-	1,50	4,00
Due from banks	-	-	-
Financial assets at fair value through profit and loss	-	6,60	10,76
money market placements	-	-	11,74
Investment securities			
--for-sale	4,75	6,66	10,66
- Held-to-maturity	-	3,46	-
Loans and advances to customers	5,59	6,98	16,15
Liabilities			
Bank deposits	1,87	3,35	12,42
Customer deposits	2,05	4,09	14,26
Money market borrowings	-	-	-
Debt securities issued and due to banks	2,01	3,37	6,71
Subordinated loans	-	7,63	-

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

C. Liquidity risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows completely and timely.

Liquidity risk may also occur when the market penetration is not adequate, when the open positions cannot be closed quickly at suitable prices and sufficient amounts due to barriers and break-ups at the markets.

The Bank's policy is to establish an asset structure that can meet all kinds of liabilities by liquid sources at all times. In order to maintain this, the Board of Directors of the Bank continuously determines standards for the liquidity ratios, and monitors them.

According to the general policies of the Bank, the maturity and interest rate structure of assets, and liabilities is always monitored. A positive difference is tried to be established between the yields of assets and liabilities on the balance sheet and their costs. In this sense, various crisis scenarios which are prepared by Risk Management Group are presented to Senior Management and Audit Committee.

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency ("BRSA"). In November 2006, BRSA issued a new communique on the measurement of liquidity adequacy of the banks. The Group's liquidity ratios in 2018 and 2017 are as follows:

	Current Year-31.12.2018		Prior Year-31.12.2017	
	TL+FC	FC	TL+FC	FC
Lowest	144,62	96,83	152,23	159,38
Week	12.10.2018	26.10.2018	15.12.2017	27.10.2017
Highest	311,33	199,41	279,50	326,64
Week	16.11.2018	23.11.2018	17.11.2017	29.12.2017
Average	219,26	141,93	196,62	236,33

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

4. Financial risk management (continued)

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by diversified and steady base deposits and in addition to this source, it makes use of pre-financing and other institutional funding and borrowings syndication products to generate additional sources.

The following table presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, which include interest to be paid at maturity, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

December 31, 2018

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits and money market borrowings (*)	1.287.220	19.492.887	778.714	2.227	-	**21.561.048**
Debt securities issued, subordinated loans and due to banks	-	1.152.438	633.605	920.648	3.824.623	**6.531.314**
Total liabilities	**1.287.220**	**20.645.325**	**1.412.319**	**922.875**	**3.824.623**	**28.092.362**

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

December 31, 2017

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits and money market borrowings (*)	876.246	22.937.018	204.972	332	-	24.018.568
Debt securities issued, subordinated loans and due to banks	-	531.816	1.282.547	996.091	2.396.200	5.206.654
Total liabilities	**876.246**	**23.468.834**	**1.487.519**	**996.423**	**2.396.200**	**29.225.222**

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

Analysis of contractual expiry by maturity of the Bank’s derivative financial instruments:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As of December 31, 2018						
Gross settled						
Purchase of foreign exchange forward contracts	583.750	642.500	1.076.779	73	-	**2.303.102**
Sale of foreign exchange forward contracts	(544.294)	(612.700)	(1.037.125)	(97)	-	**(2.194.216)**
Purchase of currency swaps	5.734.238	1.604.334	1.136.338	1.991.977	-	**10.466.887**
Sale of currency swaps	(5.687.581)	(1.684.920)	(1.087.108)	(2.007.441)	-	**(10.467.050)**
Purchase of interest rate swap agreement	53.394	165.339	1.108.259	5.055.506	11.836.283	**18.218.781**
Sale of interest rate swap agreement	(53.395)	(165.339)	(1.108.258)	(5.055.505)	(11.836.284)	**(18.218.781)**
Purchase of foreign currency sell and buy options	1.953.248	1.492.036	2.016.038	15.796	-	**5.477.118**
Sale of foreign currency sell and buy options	(2.030.099)	(1.475.142)	(2.061.150)	(14.742)	-	**(5.581.133)**
Purchase of interest rate sell and buy options	-	132.444	-	245.486	-	**377.930**
Sale of interest rate sell and buy options	-	(132.444)	-	(245.486)	-	**(377.930)**
Total	**9.261**	**(33.892)**	**43.773**	**(14.433)**	**(1)**	**4.708**

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As of December 31, 2017						
Gross settled						
Purchase of foreign exchange forward contracts	759.146	361.329	275.397	-	-	1.395.872
Sale of foreign exchange forward contracts	(756.292)	(351.005)	(268.276)	-	-	(1.375.573)
Purchase of currency swaps	6.296.628	3.189.989	4.129.918	1.489.451	75.706	15.181.692
Sale of currency swaps	(6.347.733)	(3.230.261)	(4.063.091)	(1.490.640)	(76.788)	(15.208.513)
Purchase of interest rate swap agreement	113.868	117.883	1.507.338	3.936.759	522.058	6.197.906
Sale of interest rate swap agreement	(113.868)	(117.883)	(1.507.337)	(3.936.759)	(522.059)	(6.197.906)
Purchase of foreign currency sell and buy options	1.216.379	389.549	1.176.981	11.388	-	2.794.297
Sale of foreign currency sell and buy options	(1.229.257)	(392.091)	(1.201.000)	(13.200)	-	(2.835.548)
Purchase of interest rate sell and buy options	-	-	-	217.118	-	217.118
Sale of interest rate sell and buy options	-	-	-	(217.118)	-	(217.118)
Total	**(61.129)**	**(32.490)**	**49.930**	**(3.001)**	**(1.083)**	**(47.773)**

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

4. Financial risk management (continued)

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to negatively impact the earnings from violations or noncompliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management department ("ORM") monitors the Bank's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Bank's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, the Bank calculates the amount subject to operational risk with the basic indicator method in accordance with Section 4 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 28337 dated June 28, 2012.

The value at operational risk is calculated according to the basic indicator approach of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette No. 28337 dated June 28, 2012.

	2 PY Amount	1 PY Amount	CY Amount	Total / Total number of years for which gross income is positive	Rate (%)	Total
Gross income	865.225	1.444.451	1.565.540	1.291.739	15	**193.761**
The amount subject to operational risk (Total*12,5)						**2.422.013**

E. Capital management

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank; BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets.

The Group's regulatory capital is analysed into two tiers:

Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.

Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of financial assets measured at fair value through other comprehensive income and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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

4. Financial risk management (continued)

The Bank's regulatory capital adequacy position at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	1.810.916	1.712.700
Capital requirement for market risk (II) (Value at Market Risk*0.08) (MRCR)	65.217	121.349
Capital requirement for operational risk (III) (ORCR)	193.761	144.972
Shareholders' Equity	5.535.732	5.027.825
Shareholders' Equity/((CRCR+MRCR+ORCR) * 12,5) * 100	**21,40**	**20,32**

F. Fair value of financial instruments

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

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheets at their fair values at December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:	**24.729.569**	**24.039.742**	**27.355.310**	**27.138.302**
Due from banks and money market placements	3.187.222	3.187.222	3.180.491	3.180.491
Loans and advances to customers	18.556.247	18.056.266	22.465.253	22.246.386
Financial assets at fair value through other comprehensive income(*)	304.898	304.898	1.262.433	1.262.433
Financial assets measured at amortized cost(**)	2.681.202	2.491.356	447.133	448.992
Financial liabilities:	**26.480.077**	**26.068.604**	**28.028.099**	**27.945.768**
Deposits	21.561.048	21.562.797	23.910.387	23.912.246
Debt securities issued, repurchase agreements, subordinated loans and due to banks	4.919.029	4.505.807	4.117.712	4.033.522

(*) Classified as "Available for sale financial assets" as of December 31, 2017.
(**) Classified as "Held to maturity" as of December 31, 2017.

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

4. Financial risk management (continued)

Determination of fair value and fair value hierarchy:

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

Assets and liabilities measured at fair value

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial Assets	**303.508**	**1.085.301**	**4.659**	**1.393.468**
Financial Assets at Fair Value through Profit and Loss	3.269	-	-	3.269
Financial Assets at Fair Value through Other Comprehensive Income	300.239	-	4.659	304.898
Derivative Financial Assets at Fair Value through Profit and Loss	-	1.085.301	-	1.085.301
Financial Liabilities	**-**	**1.192.620**	**-**	**1.192.620**
Derivative Financial Liabilities at Fair Value Through Profit and Loss	-	1.076.579	-	1.076.579
Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income	-	116.041	-	116.041

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

4. Financial risk management (continued)

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
- Debt securities	760	774.435	-	775.195
- Equity securities	-	-	-	-
- Derivatives	-	421.116	-	421.116
Available-for-sale financial assets				
- Investments securities – debt	1.254.532	-	-	1.254.532
- Investments securities – equity	-	-	2.897	2.897
Total assets	**1.255.292**	**1.195.551**	**2.897**	**2.453.740**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	404.471	-	404.471
Total liabilities	**-**	**404.471**	**-**	**404.471**

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

The movement table of financial assets at level 3 are given below:

	2018	2017
Balance at the beginning of the year	2.897	1.840
Effect of exchange rate changes	1.147	143
Valuation differences	615	914
Balance at the end of the year	**4.659**	**2.897**

5. Cash and balances with central banks

Cash and Balances with the Central Bank of Turkey:

	December 31, 2018	December 31, 2017
TL	1.094.813	1.490.122
Foreign currency	2.976.158	2.241.698
Total	**4.070.971**	**3.731.820**

(*) As a result of IFRS 9 adoption, amount of TL 711 provision booked for cash and balances with the Central Bank of Turkey as of December 31, 2018.

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

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

	December 31, 2018	December 31, 2017
Cash and cash equivalents	175.197	182.435
Current account balances with the Central Bank	2.492.900	1.388.672
Loans and advances to banks, excluding accrued interest (with original maturity less than 90 days) (included in due from banks),	2.447.101	437.622

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

Reverse repos, excluding accrued interest (included in money market placements)	690.000	2.740.000
Total	**5.805.198**	**4.748.729**

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

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

The reserve rates for TL liabilities vary between 1,5% and 8% for TL deposits and other liabilities according to their maturities as of December 31, 2018 (December 31, 2017: 4% and 10,5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 20% for deposit and other foreign currency liabilities according to their maturities as of December 31, 2018 (December 31, 2017: 4% and 24% for all foreign currency liabilities).

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

6. Due from banks

			December 31, 2018
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	1.058.065	9.983	**1.068.048**
Time deposits	-	-	**-**
Interbank money market and reverse repo	740.121	-	**740.121**
	1.798.186	**9.983**	**1.808.169**
Foreign currency:			
Nostro/ demand deposits (*)	-	1.379.053	**1.379.053**
Time deposits	-	-	**-**
	-	**1.379.053**	**1.379.053**
Total	**1.798.186**	**1.389.036**	**3.187.222**

(*) As of December 31, 2018, nostro/ demand deposits include collaterals amounting to TL 444.366 given to the foreign banks for the derivative transactions.
(**) As a result of IFRS 9 adoption, amount of TL 139 expected credit loss booked for due from banks and financial instutions as of December 31, 2018.

			December 31, 2017
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	203	-	203
Time deposits	-	-	-
Interbank money market and reverse repo	2.742.869	-	2.742.869
Total	**2.743.072**	**-**	**2.743.072**
Foreign currency:			
Demand deposits (*)	-	437.419	437.419
Time deposits	-	-	-
Total	**-**	**437.419**	**437.419**
Total	**2.743.072**	**437.419**	**3.180.491**

(*) As of December 31, 2017, demand deposits include collaterals amounting to TL 150.893 given to the foreign banks for the derivative transactions.

7. Financial assets at fair value though profit or loss

	December 31, 2018	**December 31, 2017**
Derivative financial instruments	1.085.301	421.116
Financial assets held for trading	3.269	775.195
Total financial assets held for trading	**1.088.570**	**1.196.311**

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

8. Derivative financial instruments

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

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

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market.

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

December 31, 2018

	Contract/ notional amount (aggregate of buy and sell)	**Fair values assets**	**Fair values liabilities**
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	4.497.318	108.315	58.060
Currency swaps	20.933.937	605.731	567.142
Currency options	11.058.251	156.675	195.315
Total foreign exchange derivatives	36.489.506	870.721	820.517
Interest rate derivatives:			
Interest rate swaps	35.637.562	214.473	254.962
Options	755.860	107	1.100
Total interest rate derivatives	36.393.422	214.580	256.062
Total derivatives held for trading	**72.882.928**	**1.085.301**	**1.076.579**
***Derivatives for* cash flow hedge**			
Interest rate swaps	800.000	-	116.041
Total *derivatives for hedge accounting*	**800.000**	**-**	**116.041**
Total	**73.682.928**	**1.085.301**	**1.192.620**

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

8. Derivative financial instruments (continued)

December 31, 2017

	Contract/ notional amount (aggregate of buy and sell)	Fair values assets	Fair values liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	2.771.445	20.483	5.545
Currency swaps	30.390.205	336.281	357.415
Currency options	5.629.845	27.571	20.676
Total foreign exchange derivatives	**38.791.495**	**384.335**	**383.636**
Interest rate derivatives:			
Interest rate swaps	12.395.812	36.687	20.741
Options	434.236	94	94
Total interest rate derivatives	**12.830.048**	**36.781**	**20.835**
Total derivative assets/ (liabilities) held for trading	**51.621.543**	**421.116**	**404.471**

9. Loans and advances to customers

December 31, 2018

	Corporate and Commercial	SME	Retail	Total
Performing loans	10.036.069	1.425.324	1.187.676	**12.649.069**
Watch listed and restructured loans	2.931.443	945.010	268.881	**4.145.334**
Significant Increase	1.615.438	273.449	-	**1.888.887**
Impaired loans	722.579	1.002.982	36.096	**1.761.657**
Gross	**15.305.529**	**3.646.765**	**1.492.653**	**20.444.947**
Loan Loss Provision				
Specific allowance for impairment	(486.868)	(428.782)	(14.302)	**(929.952)**
Collective allowance for impairment	(834.739)	(109.104)	(14.905)	**(958.748)**
Net	**13.983.922**	**3.108.879**	**1.463.446**	**18.556.247**

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

9. Loans and advances to customers (continued)

December 31, 2017

	Corporate and Commercial	SME	Retail	Total
Performing loans	13.498.849	3.938.782	2.310.970	19.748.601
Watch listed and restructured loans	1.345.136	619.707	288.234	2.253.077
Impaired loans	402.308	465.137	208.027	1.075.472
Gross	**15.246.293**	**5.023.626**	**2.807.231**	**23.077.150**
Loan Loss Provision				
Specific allowance for impairment	(119.357)	(202.470)	(123.817)	(445.644)
Collective allowance for impairment	(64.425)	(50.551)	(51.277)	(166.253)
Net	**15.062.511**	**4.770.605**	**2.632.137**	**22.465.253**

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

	December 31, 2018	December 31, 2017
Public sector	-	-
Private sector	18.556.247	22.465.253
Total	**18.556.247**	**22.465.253**

The movement of total non-performing loans:

	Balance December 31, 2017	Transfers to non-performing loans	Collections	Sales	Balance December 31, 2018
Retail	208.018	185.296	(56.057)	(266.371)	70.886
SME	469.749	743.766	(164.807)	(76.534)	972.174
Corporate/Commercial	397.705	404.690	(68.499)	(15.299)	718.597
Total	**1.075.472**	**1.333.752**	**(289.363)**	**(358.204)**	**1.761.657**

Movements in the provision for loan losses are as follows:

	December 31, 2018	December 31, 2017
January 1, 2018	**611.897**	**430.571**
Re-measurement (**)	**787.829**	**-**
Additions	1.148.476	443.320
Collections	(289.363)	(57.861)
Write-offs and sales (*)	(370.139)	(204.133)
Total	**1.888.700**	**611.897**

(*) The Bank completed the NPL sale of fully provisioned retail customers amounting to TL 266.371 to Hayat Varlık (Asset Management Company) on December 26, 2018 for TL 50.000 and TL 91.833 of the commercial loans recognized as loss was sold to Hayat Varlık on December 24, 2018 for TL 25.

(**) Excluding non-cash re-measurement balance

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

10. Investment securities

Financial assets at fair value through other comprehensive income

	December 31, 2018(**)	December 31, 2017 (*)
Debt securities - at fair value:		
Turkish Government bonds and treasury bills	295.200	746.337
Lebanese Government Eurobonds and treasury bills	-	508.195
Share Certificates	9.698	7.901
Equity securities - at fair value	-	-
Listed	-	-
Unlisted	-	-
Total securities	**304.898**	**1.262.433**

(*) Classified as “Available for sale financial assets” as of December 31, 2017.
(**) As a result of IFRS 9 adoption, amount of TL 560 provision booked for financial assets at fair value through other comprehensive income as of December 31, 2018.

As of December 31, 2018 financial assets at fair value through other comprehensive income pledged as collateral and also subject to repurchase agreement amount to TL 103.131 (December 31, 2017: TL 564.933).

The movement in financial assets at fair value through other comprehensive securities at during the years is as follows:

	December 31, 2018	December 31, 2017
At January 1	**1.262.433**	**905.455**
Additions	265.352	321.711
Disposals / redemption	(922.463)	-
Interest accruals and changes in fair value	13.734	4.222
Foreign currency differences and realized gain or loss	166.499	31.045
Transfers, net	(480.657)	-
At December 31	**304.898**	**1.262.433**

Financial assets measured at amortized cost

	December 31, 2018 (**)	December 31, 2017 (*)
Debt securities - at amortized cost - listed:		
Turkish Government Eurobonds and treasury bills	1.483.517	447.133
Government bonds and treasury bills sold under repurchase agreements	467.386	-
Foreign government bonds	736.299	-
Total securities	**2.681.202**	**447.133**

(*) Classified as “Held to maturity” as of December 31, 2017.
(**) As a result of IFRS 9 adoption, amount of TL 21.140 provision booked Financial assets measured at amortized cost as of December 31, 2018.

As of December 31, 2018 financial assets measured at amortized cost pledged as collateral and also subject to repurchase agreement amounting TL 1.590.110 (December 31, 2017: 338.078).

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

10. Investment securities (continued)

The movement in financial assets measured at amortized cost during the years is as follows:

	December 31, 2018	December 31, 2017
At January 1, 2018	**447.133**	**428.155**
Additions	1.409.714	225.096
Redemptions	(1.379.616)	(225.096)
Transfers	1.254.532	-
Foreign currency differences	970.579	18.978
Expected Credit Loss	(21.140)	
At December 31, 2018	**2.681.202**	**447.133**

11. Property and equipment

	December 31, 2018	December 31, 2017
Cost	259.939	260.656
Accumulated depreciation and impairment (-)	173.116	156.273
Net book amount	**86.823**	**104.383**

December 31, 2018	Land and buildings	Office equipment	Furniture and fixtures, vehicles and other	Leasehold Improvements	Total
Cost					
At January 1, 2018	9.174	110.718	19.224	121.540	**260.656**
Additions	-	-	4.257	210	**4.467**
Transfers	-	-	-	-	**-**
Disposals	-	-	(252)	(4.932)	**(5.184)**
At December 31, 2018	**9.174**	**110.718**	**23.229**	**116.818**	**259.939**
Accumulated depreciation and impairment					
At January 1, 2018	(947)	(67.443)	(12.095)	(75.788)	**(156.273)**
Depreciation charge (Note 24)	(183)	(14.756)	(3.004)	(8.614)	**(26.557)**
Transfers	-	-	-	9.513	**9.513**
Disposals	-	201	-	-	**201**
At December 31, 2018	**(1.130)**	**(81.998)**	**(15.099)**	**(74.889)**	**(173.116)**
Net book amount at December 31, 2018	**8.044**	**28.720**	**8.130**	**41.929**	**86.823**

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

11. Property and equipment (continued)

December 31, 2017	Land and buildings	Office Equipment	Furniture and fixtures, vehicles and other	Leasehold Improvements	Total
Cost					
At January 1, 2017	9.174	100.350	18.589	117.420	245.533
Additions	-	10.484	714	9.799	20.997
Transfers	-	-	-	-	-
Disposals	-	(116)	(79)	(5.679)	(5.874)
At December 31	**9.174**	**110.718**	**19.224**	**121.540**	**260.656**
Accumulated depreciation and impairment					
At January 1, 2017	(764)	(51.020)	(8.634)	(55.649)	(116.067)
Depreciation charge (Note 24)	(183)	(16.517)	(3.577)	(25.741)	(46.018)
Transfers	-	-	37	(37)	-
Disposals	-	94	79	5.639	5.812
At December 31, 2017	**(947)**	**(67.443)**	**(12.095)**	**(75.788)**	**(156.273)**
Net book amount at December 31, 2017	**8.227**	**43.275**	**7.129**	**45.752**	**104.383**

12. Intangible assets

	December 31, 2018	December 31, 2017
Cost	196.220	191.131
Accumulated amortization(-)	133.278	101.206
Net book amount	**62.942**	**89.925**

Movements of other intangible assets were as follows:

December 31, 2018	Rights and licenses	Software	Total
Cost			
At January 1, 2018	1.129	190.002	**191.131**
Additions	-	5.089	**5.089**
At December 31, 2018	**1.129**	**195.091**	**196.220**
Accumulated amortization			
At January 1, 2018	(352)	(100.855)	**(101.207)**
Amortization charge (Note 24)	-	(32.071)	**(32.071)**
At December 31, 2018	**(352)**	**(132.926)**	**(133.278)**
Net book amount at December 31, 2018	**777**	**62.165**	**62.942**

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

12. Intangible assets (continued)

December 31, 2017	Rights and Licenses	Software	Total
Cost			
At January 1, 2017	1.129	165.754	166.883
Additions	-	24.248	24.248
At December 31, 2017	**1.129**	**190.002**	**191.131**
Accumulated amortization			
At January 1, 2017	(352)	(67.724)	(68.076)
Amortization charge (Note 24)	-	(33.130)	(33.130)
At December 31, 2017	**(352)**	**(100.854)**	**(101.206)**
Net book amount at December 31, 2017	**777**	**89.148**	**89.925**

13. Other assets and current assets held for resale

	December 31, 2018	December 31, 2017
Loan related assets	459.575	79.229
Prepaid expenses (*)	169.315	63.302
Credit card receivables	74.873	42.911
Settlement accounts	26.537	3.018
Other	67.352	36.303
Total	**797.652**	**224.763**

(*) Prepaid expenses mainly constitute prepaid rents, charges and other items.

Movements in assets held for resale during the years, were as follows:

	December 31, 2018	December 31, 2017
Cost		
At January 1, 2018	170.946	42.094
Additions	89.935	156.992
Disposals	(22.356)	(28.140)
At December 31, 2018	**238.525**	**170.946**

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

14. Deposits

	December 31, 2018	December 31, 2017
Customer deposits	20.406.471	23.316.039
Fiduciary and bank deposits	1.154.577	594.348
Total Deposits	**21.561.048**	**23.910.387**

December 31, 2018	DEMAND			TIME			
	TL	FC	Total	TL	FC	Total	Grand Total
Corporate and Commercial	140.867	372.979	513.846	764.083	1.405.641	2.169.724	2.683.570
Retail	176.981	477.874	654.855	6.490.748	8.057.162	14.547.910	15.202.765
SME	45.242	71.494	116.736	868.997	1.534.403	2.403.400	2.520.136
Customer Deposits	**363.090**	**922.347**	**1.285.437**	**8.123.828**	**10.997.206**	**19.121.034**	**20.406.471**
Fiduciary and Bank Deposits	**1.783**	**-**	**1.783**	**8.716**	**1.144.078**	**1.152.794**	**1.154.577**
Grand Total	**364.873**	**922.347**	**1.287.220**	**8.132.544**	**12.141.284**	**20.273.828**	**21.561.048**

December 31, 2017	DEMAND			TIME			
	TL	FC	Total	TL	FC	Total	Grand Total
Corporate and Commercial	52.542	191.225	243.767	1.096.203	2.654.970	3.751.173	3.994.940
Retail	186.410	318.152	504.562	7.930.323	8.038.587	15.968.910	16.473.472
SME	58.724	69.033	127.757	957.174	1.762.696	2.719.870	2.847.627
Customer Deposits	**297.676**	**578.410**	**876.086**	**9.983.700**	**12.456.253**	**22.439.953**	**23.316.039**
Fiduciary and Bank Deposits	**160**	**-**	**160**	**10.336**	**583.852**	**594.188**	**594.348**
Grand Total	**297.836**	**578.410**	**876.246**	**9.994.036**	**13.040.105**	**23.034.141**	**23.910.387**

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

15. Debt securities issued, subordinated loans, due to banks and funds obtained under repurchase agreements

	December 31, 2018	December 31, 2017
Subordinated loan (a)	1.843.122	1.174.992
Due to banks (b)	3.075.907	2.942.720
Total	**4.919.029**	**4.117.712**

a) Information on subordinated loan:

The Bank, on August 1, 2017 issued the Basel III compliant, 10 year, semi-annual fixed %7,625 coupon paying bond of USD 300 million to foreign domicile investors. The bond, with the permission of BRSA dated July 17, 2017 was classified as Tier II sub-loan. The Bank, pursuant to the approval of the BRSA on 26 September 2018, bought back USD 670 thousands of Tier II sub-loan on 05 December 2018, and the relevant amount has been deducted from the capital amount in the equity calculation. The Bank has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amount at any time is completely at the Bank management's discretion.

Movement of subordinated loan for the year ending at December 31, 2018 is as follows:

Movement for subordinated loan	**2018**
Balance at the beginning of the year	1.174.992
Proceeds during the year	-
Repayments during the year	(3.558)
Effect of exchange rate changes on the balance of cash held in foreign currencies	657.769
Change in accrual balance	13.919
Balance at the end of the year	**1.843.122**

b) Information on due to banks:

a) Information on banks and other financial institutions:

	December 31, 2018			December 31, 2017		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
From domestic banks and institutions	2.550	12.811	15.361	2.940	29.272	32.212
From foreign banks, institutions and funds	-	3.060.546	3.060.546	-	2.910.508	2.910.508
Total	**2.550**	**3.073.357**	**3.075.907**	**2.940**	**2.939.780**	**2.942.720**

b) Maturity analysis of funds borrowed:

	December 31, 2018			December 31, 2017		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Short-term	2.040	780.227	782.267	353	904.327	904.680
Medium and long-term	510	2.293.130	2.293.640	2.587	2.035.453	2.038.040
Total	**2.550**	**3.073.357**	**3.075.907**	**2.940**	**2.939.780**	**2.942.720**

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

15. Debt securities issued, subordinated loans, due to banks and funds obtained under repurchase agreements (continued)

Movement of funds borrowed for the year ending at December 31, 2018 is as follows:

Movement for funds borrowed	**2018**
Balance at the beginning of the year	2.942.720
Proceeds during the year	4.269.843
Repayments during the year	(4.120.214)
Change in accrual balance	(16.442)
Balance at the end of the year	**3.075.907**

c) Information on money market balances:

None.

d) Information on debt securities issued:

None.

e) Information on funds provided under repurchase agreement:

As of December 31, 2018, the Bank does not have any funds provided under repurchase agreements (December 31, 2017: TL 2.457).

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

16. Taxation

	December 31, 2018	December 31, 2017
Current tax income / (expense)	-	(51.254)
Deferred tax income / (expense)	520	(31.324)
Tax income/(expense)	**520**	**(82.578)**
Income taxes currently payable	-	62.210
Prepaid taxes	-	(60.715)
Income taxes payable/(receivable)	**-**	**1.495**

Through the enactment of Corporate Tax Law No.5520 ("New Corporate Tax Law") published in the Official Gazette No.26205 dated June 21, 2006, corporation tax is payable at the rate of 20% effective from January 1, 2006 on the total income of the entities in Turkey after adjusting for certain disallowable expenses, exempt income and investment and other allowances. However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 22% corporate tax rate will be applied to the profits of the entities related to their to 2018, 2019 and 2020 tax periods (for the entities with special accounting period, tax periods commenced in the related year) rather than 20%. No further tax is payable unless the profit is distributed.

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

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

75% of the income derived by the Company from the sale of participation shares, preferential rights, founders' shares and redeemed shares and 50% of the income derived by the Company from the sale of immovable property which are carried in assets for at least for two years is exempt from corporate tax with the condition that the relevant income should be added to the share capital or kept under a special reserve account under equity for 5 years in accordance with the Corporate Tax Law.

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

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

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

16. Taxation (continued)

Deferred income taxes

As of December 31, 2018, the tax rate of 22% is used for the temporary differences expected to be realized / settled within 3 years (2018, 2019 and 2020) for deferred tax calculation since the tax rate applicable for 3 years has been changed to 22%. However, 20% tax rate is used for temporary differences expected / expected to be incurred after 2020 since the tax rate applicable for post-2020 corporations is 20%.

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

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

	Cumulative Temporary Differences	Deferred Tax Asset/ Liability	Cumulative Temporary Differences	Deferred Tax Asset/ Liability
	December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2017
Allowance for unused vacation and other short term employee benefits	36.141	7.951	36.002	7.420
Net book value and tax value differences of financial assets and derivative financial liabilities	1.156.888	254.515	410.759	90.367
Deferred commissions	53.399	11.748	63.296	13.925
Provisions for loans and advances	-	-	166.253	33.251
Free provision	45.635	10.040	223.276	49.121
Other	1.176.273	258.780	13.331	2.743
Deferred income tax assets	**2.439.086**	**536.599**	**912.917**	**196.827**
Net book value and tax value differences of derivative financial assets	1.177.319	259.010	432.326	95.112
Difference between carrying value and tax base of property and equipment	15.109	2.842	34.696	7.323
Other	42.696	9.860	19.257	4.050
Deferred income tax liabilities	**1.202.034**	**264.432**	**486.279**	**106.485**
Deferred income tax assets, net	**1.237.052**	**272.167**	**426.638**	**90.342**

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

16. Taxation (continued)

The movements of net deferred income taxes during the years were as follows:

	December 31, 2018	December 31, 2017
Balance at January 1, 2018	**90.342**	**120.267**
Opening of IFRS 9 effect	**156.286**	**-**
Balance at January 1, 2018 after IFRS 9 effect	**246.628**	**120.267**
(Charge) / credit for the year, net	520	(31.324)
Financial assets at fair value through other comprehensive income revaluation reserve (*)	25.019	1.399
Balance at December 31, 2018	**272.167**	**90.342**

(*) Classified as "Available for sale financial assets" as of December 31, 2017.

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position.

Income tax effects relating to components of other comprehensive income

			December 31, 2018
	Before tax amount	Tax (expense) benefit	Net-of tax amount
Fair value gains on financial assets at fair value through other comprehensive income	(25.696)	5.653	(20.043)
Cash flow hedge reserve	(88.280)	19.422	(68.858)
Other	254	(56)	198
Other comprehensive income/(loss) for the year (net presentation)	(113.722)	25.019	(88.703)

			December 31, 2017
	Before tax amount	Tax (expense) benefit	Net-of tax amount
Fair value gains on available-for- sale financial assets	(6.996)	1.399	(5.597)
Other comprehensive income/(loss) for the year (net presentation)	(6.996)	1.399	(5.597)

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

17. Employee benefits

	December 31, 2018	December 31, 2017
Employee termination benefit provision	6.644	5.745
Unused vacation provision	5.203	5.257
Personnel premium	25.000	25.000
Total of provision for employee benefits	**36.847**	**36.002**

Movements in the employee termination benefit provision during the year:

	December 31, 2018	December 31, 2017
Balance at the beginning of period	**5.745**	**8.459**
Service Cost	1.689	2.223
Interest expense	632	814
Actuarial gain/loss transferred to equity	706	-
The amount of provision	(2.128)	(5.751)
Balance at the end of period	**6.644**	**5.745**

Reserve for employment termination benefits

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

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

	December 31, 2018	December 31, 2017
Discount rate in real terms	3,83%	2,78%
Interest rate	13,90%	11,00%
Estimated salary/ Employee termination benefit increase rate	9,70%	8,00%

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

18. Other liabilities and other provisions

Other liabilities	**December 31, 2018**	**December 31, 2017**
Provisions	93.938	234.842
Credit card payables	83.374	63.902
Cheques in clearance	76.910	13.305
Taxes payable to banking operations	45.509	55.179
Due to national institute for guarantee of deposits	4.716	4.982
Social security duties	3.073	7.154
Others	110.333	229.362
Total	**417.853**	**608.726**

Provisions	**December 31, 2018**	**December 31, 2017**
Provision for non - cash loans	48.303	11.566
Provision for outstanding legal claims	20.000	-
General reserve for possible risks	16.385	223.276
Other	9.250	-
Total	**93.938**	**234.842**

19. Share capital

As of December 31, 2018 the historic amount of paid-in share capital of the Bank consists of 3.288.842.000 authorized shares with a nominal value of TL 1 each.

The issued and fully paid-in share capital and share premium are as follows:

	December 31, 2018		**December 31, 2017**	
Shareholders (*)	**Participation rate (%)**	**TL**	**Participation rate (%)**	**TL**
Bank Audi S.A.L.-Audi Group	76,419	2.513.293	73,661	2.422.595
European Bank for Reconstruction and Development	8,009	263.394	8,009	263.394
International Finance Corporation	6,362	209.252	6,362	209.252
H.H Sheikh Dheyab Binzayed Binsultan Al-Nahyan	4,004	131.697	4,004	131.697
IFC Financial Institutions Growth Fund L.P	3,426	112.674	3,426	112.674
Mr.Mohammad Hassan Zeidan	1,780	58.532	1,780	58.532
Audi Private Bank sal	-	-	2,758	90.698
Total share capital	**100,00**	**3.288.842**	**100,00**	**3.288.842**

(*) As per the Board of Directors decision dated February 27, 2018 and the resolution of Ordinary General Assembly dated 29 March 2018 issued share certificates amounting to 90.698.400 nominal value of TL 1,00 (Full TL) belonging to Audi Private Bank sal have been transferred to Bank Audi sal.

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

20. Other Reserves

	December 31, 2018	December 31, 2017
Revaluation reserve - financial assets at fair value through other comprehensive income	(20.043)	(34.338)
Cash flow hedge reserve	(68.858)	-
Other reserve (*)	(2.198)	(2.198)
Other	3.141	3.251
Total other reserves	**(87.958)**	**(33.285)**

(*) As per Turkish Account Standards 32, the Bank accounted stamp tax expenses and competition board fees resulted from the capital increase transaction amounting TL 2.198 under equity.

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

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

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

Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless the reserve exceeds 50% of paid-in share capital.

21. Net interest income

	December 31, 2018	December 31, 2017
Interest & similar income		
Loans and advances to customers	2.705.675	2.913.386
Reverse repurchase agreements	83.140	231.564
Due from banks & financial institutions	211.783	138.860
Financial assets at fair value through other comprehensive income	65.433	78.162
Other interest & similar income	198.200	81.231
Cash and balances with Central Banks	53.322	52.150
Financial assets classified at amortized cost	182.564	17.205
Financial assets held at fair value through profit and loss	1.062	16.438
Total interest & similar income	**3.501.179**	**3.528.996**
Interest & similar expense on:		
Customers deposits	(2.062.472)	(1.947.782)
Other interest and similar charges	(137.459)	(292.936)
Due to banks and financial institutions	(88.977)	(93.549)
Subordinated loans and similar debts	(114.734)	(56.822)
Other debt issued & borrowed funds	(11.856)	(4.176)
Repurchase agreement	(2.292)	(97)
Total interest & similar expense	**(2.417.790)**	**(2.395.362)**
Net interest income	**1.083.389**	**1.133.634**

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

22. Net fee and commission income

	December 31, 2018	December 31, 2017
Fee and commission income on:		
General banking income	12.545	14.789
Brokerage and custody income	1.138	2.526
Trade finance income	43.789	46.998
Electronic cards	66.772	64.082
Insurance income	2.805	6.035
Corporate finance	9.463	46.668
Other fees and commissions	17.004	13.488
Total fee and commission income	**153.516**	**194.586**
Fee and commission expense on:		
General banking expense	(12.545)	(12.551)
Electronic cards	(13.147)	(16.509)
Other	(8.918)	(9.918)
Total fee and commission expense	**(34.610)**	**(38.978)**
Net fee and commission income	**118.906**	**155.608**

23. Net trading and fair value income and net gains / losses from investment securities

	December 31, 2018	December 31, 2017
Net trading and fair value gains and losses (*)	744.478	92.009
Foreign exchange gains/losses (*)	(693.212)	(136.790)
Treasury Bills and Bonds (**)	(58.430)	226.775
Total	**(7.164)**	**181.994**

(*) Foreign exchange gains/losses include the spot legs of forward contracts and options in addition to the translated foreign currency assets and liabilities.

(**) In 2017, the Bank purchased Certificate of Deposits issued by Central Bank of Lebanon amounting to nominal USD 196.700 thousands under special agreement conditions that generated capital gains of TL 226.667 and accounted under trading income/loss in the income statement (During 2016, the Bank purchased USD denominated Eurobonds through sale of LBP T-Bills (nominal amount of 595 billion) with the Central Bank of Lebanon that generated capital gains of TL 349.555 as at year end.).

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

24. Other operating expenses

	December 31, 2018	December 31, 2017
Personnel expenses	**188.806**	**307.185**
Salaries and related benefits	156.404	223.357
Social and regulatory expenses	21.389	26.474
Medical and life insurance	6.036	7.615
Food and beverage	3.043	5.949
Training and seminars	1.306	2.212
Other staff expenses	513	21.098
Transportation	115	20.480
Other operating expenses	**410.638**	**351.449**
Buildings rental and related expenses	83.696	81.014
Information technology	65.748	51.296
Taxes and similar disbursements	55.455	29.679
Regulatory fees	33.540	12.300
Professional and outsourcing fees	28.130	36.638
Advertising fees	24.309	40.421
Premium for guarantee of deposits	18.061	20.661
Credit cards expenses	16.546	13.834
Telephone and mailing expenses	9.880	11.948
Subscription to communication services	5.675	4.535
Maintenance machines and material	4.597	4.926
Insurance premiums	2.610	1.926
Office supplies	1.392	2.242
Other expenses	60.999	40.029
Depreciation of property & equipment	**26.557**	**46.018**
Amortization of intangible assets	**32.071**	**33.130**
Total	**658.072**	**737.782**

25. Commitments and contingent liabilities

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

Legal proceedings

As of the balance sheet date, there are no lawsuits filed against the Bank and for which provision has been booked due to their likelihood of being lost. The Bank has not any contingent liability with a high probability of realization regarding continuing lawsuits.

Credit related commitments

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

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

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

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

25. Commitments and contingent liabilities

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

December 31, 2018 (*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	669.337	-	-	**669.337**
Letter of guarantees	-	1.795.569	-	-	**1.795.569**
Acceptance credits	-	651.057	-	-	**651.057**
Other guarantees	-	569.819	-	-	**569.819**
Total	**-**	**3.685.782**	**-**	**-**	**3.685.782**

December 31, 2017 (*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	845.476	-	-	**845.476**
Letter of guarantees	-	1.460.185	-	-	**1.460.185**
Acceptance credits	-	142.251	-	-	**142.251**
Other guarantees	-	129.978	-	-	**129.978**
Total	**-**	**2.577.890**	**-**	**-**	**2.577.890**

(*) Based on expected maturities.

Assets under management

Assets under management include client assets managed or deposited with the Bank, where, the client decides how these assets are to be invested.

As of December 31, 2018, assets under management comprise of mutual funds and bills and bonds amounting TL 311.697 (December 31, 2017: TL 199.973).

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

26. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Bank Audi.

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

(i) Balances with related parties:

	December 31, 2018	December 31, 2017
Other related parties		
Direct and indirect shareholders of the Bank		
Loans and other receivables	2.587	304
Total Loans and other receivables	**2.587**	**304**
Other related parties		
Deposits	1.326	-
Direct and indirect shareholders of the Bank		
Deposits	452.934	584.775
Direct and indirect shareholders of the Bank		
Debt securities and other funds borrowed	736.057	1.220.539
Total liabilities	**1.190.317**	**1.805.314**
Other related parties		
Credit related commitments	125	147
Direct and indirect shareholders of the Bank		
Commitment under derivative instruments	-	-
Credit related commitments	57.898	21.257
Total commitments and contingent liabilities	**58.023**	**21.404**

(ii) Transactions with related parties:

	December 31, 2018	December 31, 2017
Total interest and fee income		**-**
Interest expense on deposits	10.727	21.539
Interest expense on derivative transactions	156.621	(833)
Interest expense on debt securities and other funds borrowed	4.749	20.731
Total interest and fee expense	**172.097**	**41.437**

(iii) Balances with directors and other key management personnel:

Gross payment made to the executive management in 2018 is TL 16.035 (December 31, 2017: TL 31.981).

27. Subsequent events

None.