TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

Consolidated Financial Statements
As at and for the Year Ended 31 December 2018
With Independent Auditors' Report Thereon

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Independent Auditors' Report

To the General Assembly of Turkish Bank Anonim Şirketi

Opinion

We have audited the consolidated financial statements of Turkish Bank Anonim Şirketi ("the Bank") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements 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 opinion.

KPMG

Key Audit Matters

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

Impairment of loans and advances to customers measured at amortised cost

Refer to "Significant accounting policies" Note 2.8 to the consolidated financial statements relating to the impairment of loans and advances to customers measured at amortised cost.

Key audit matter	*How the matter was addressed in our audit*
As of 31 December 2018, loans and advances to customers measured at amortised cost comprise 59% of the Group's total assets. The Group recognizes its loans and advances to customers measured at amortised cost in accordance with the IFRS 9 Financial Instruments standard ("Standard"). As of 1 January 2018, due to the adoption of the Standard, in determining the impairment of loans and advances to customers measured at amortised cost is started to apply "expected credit loss model" rather than the "incurred loss model". The new model contains significant assumptions and estimates. The significant assumptions and estimates of the Group's management are as follows: • significant increase in credit risk, • incorporating the forward looking macroeconomic information in calculation of credit risk, • design and implementation of expected credit loss model. The determination of the impairment of loans measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets.	The audit procedures for expected credit loss calculations include below: • We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the involvement of our information risk management specialists • We evaluated the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows and we tested the appropriateness of the loan agreements with the model by selecting samples. • We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Standard. • We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialists. • We performed loan reviews for selected loan samples which includes detailed examination of loan files and related information and testing their classification. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables.

The Group calculates expected credit losses on a collective basis. The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations and the forward looking expectations are reflected by macroeconomic models. Impairment on loans and advances to customers measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above.	• We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters recalculated. • We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated qualitative factors which are used in determining the significant increase in credit risk. • Additionally, we also evaluated the adequacy of the consolidated financial statement disclosures related to impairment provisions.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of an auditor in an audit are as follows:

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Funda Aslanoğlu
Partner

14 May 2019
İstanbul, Turkey

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TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018

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

	Notes	Audited 31 December 2018	Audited 31 December 2017
Assets			
Cash and balances with the Central Bank of Turkey	5	101,939	100,552
Loans and advances to banks	6	139,367	95,845
Money market placements	7	178,739	15,667
Financial assets measured at fair value through profit or loss	8	451	11,219
Derivative financial instruments	10	1,147	1,157
Investment securities measured at fair value through other comprehensive income	9	15,264	10,380
Loans and advances to customers	11	981,223	1,220,490
Property and equipment	12	17,989	14,240
Intangible assets	13	5,244	4,183
Deferred tax assets	19	1,560	2,689
Other assets	14	226,445	125,784
TOTAL ASSETS		**1,669,368**	**1,602,206**
Liabilities			
Deposits	15	1,217,538	1,172,952
Obligations under repurchase agreements and money market funding	16	133,924	19,967
Funds borrowed	17	26,427	92,103
Derivative financial liabilities	10	2,297	1,301
Debt securities issued	18	30,034	60,250
Current tax liability	19	755	3,620
Employee benefits and other provisions	20	6,210	6,573
Other liabilities	21	39,159	41,816
TOTAL LIABILITIES		**1,456,344**	**1,398,582**
EQUITY			
Share capital	22	175,000	175,000
Adjustment to share capital	22	6,868	6,868
Legal reserves		5,686	5,167
Items that will not be reclassified to profit or loss		(128)	(1,433)
Items that are or may be reclassified subsequently to profit or loss		(185)	1,207
Retained earnings		25,783	16,815
Total equity attributable to holders of the Bank		**213,024**	**203,624**
Non-controlling interests		**-**	**-**
TOTAL EQUITY		**213,024**	**203,624**
TOTAL LIABILITIES AND EQUITY		**1,669,368**	**1,602,206**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018
Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

	Notes	Audited 31 December 2018	Audited 31 December 2017
Interest income		182,268	133,323
Interest expense		(100,583)	(64,809)
Net interest income	23	**81,685**	**68,514**
Fee and commission income		17,738	13,878
Fee and commission expense		(4,346)	(3,295)
Net fee and commission income	24	**13,392**	**10,583**
Foreign exchange losses, net	25	(34,110)	(7,751)
Trading gains, net	25	26,473	(736)
Gains from investment securities, net	25	1,180	80
Other operating income	26	10,683	2,704
Operating income, net		**99,303**	**73,394**
Impairment losses on loans and credit related commitments, net		(14,443)	(2,042)
Other operating expenses	27	(75,466)	(64,656)
Profit before income tax		**9,394**	**6,696**
Income tax income/(expense)	19	(1,381)	(1,349)
Deferred tax income/(expense)	19	(1,153)	1,218
Profit for the year		**6,860**	**6,565**
Profit Attributable to:			
Equity holders of the Bank		6,860	6,565
Non-controlling interest		-	-
Earnings per share:			
Basic and diluted earnings per share (expressed in full TL)	2.25	0.0392	0.0375

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	Audited 31 December 2018	Audited 31 December 2017
Profit for the year:		**6,860**	**6,565**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments)			
Debt investments at FVOCI – net change in fair value		(218)	-
Debt investments at FVOCI – reclassified to profit or losses		-	-
Movement in fair value reserve (available-for-sale financial assets)			
Net change in fair value of available for sale financial assets		-	156
Available for sale financial assets transferred to profit or loss		-	32
Related tax		48	(38)
Items that will not be reclassified to profit or loss			
Actuarial loss related to employee benefits	20	107	(59)
Related tax		(24)	12
Other comprehensive income, net of income tax		**(87)**	**103**
Total comprehensive income		**6,773**	**6,668**
Total comprehensive income attributable to			
Equity holders of the Bank		6,773	6,668
Non-controlling interests		-	-
Total comprehensive income		**6,773**	**6,668**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

				Items that will not be reclassified to profit or loss		Items that are or may be reclassified subsequently to profit or loss					
Audited	**Notes**	**Share Capital**	**Adjustment to share capital**	**Other**	**Actuarial gain/(loss)**	**Fair value reserves**	**Legal reserves**	**Retained earnings**	**Total equity attributable to equity holders of the Bank**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018		**175,000**	**6,868**	**-**	**(1,433)**	**1,207**	**5,167**	**16,815**	**203,624**	**-**	**203,624**
Effect of change in IFRS 9 accounting policy:	3	**-**	**-**	**1,222**	**-**	**(1,222)**	**-**	**2,627**	**2,627**	**-**	**2,627**
Restated balances at 1 January 2018		**175,000**	**6,868**	**1,222**	**(1,433)**	**(15)**	**5,167**	**19,442**	**206,251**	**-**	**206,251**
Profit for the year		-	-	-		-	-	6,860	6,860	-	6,860
Other comprehensive income		-	-	-	83	(170)	-	-	(87)	-	(87)
Total comprehensive income		**-**	**-**	**-**	**83**	**(170)**	**-**	**6,860**	**6,773**	**-**	**6,773**
Contributions by and distributions to owners											
Transfers to reserves		-	-	-	-	-	519	(519)	-	-	-
Balance at 31 December 2018	**22**	**175,000**	**6,868**	**1,222**	**(1,350)**	**(185)**	**5,686**	**25,783**	**213,024**	**-**	**213,024**
Balance at 1 January 2017		**175,000**	**6,868**	**-**	**(1,386)**	**1,057**	**4,906**	**10,511**	**196,956**	**-**	**196,956**
Profit for the year		-	-	-		-	-	6,565	6,565	-	6,565
Other comprehensive income		-	-	-	(47)	150	-	-	103	-	103
Total comprehensive income		**-**	**-**	**-**	**(47)**	**150**	**-**	**6,565**	**6,668**	**-**	**6,668**
Contributions by and distributions to owners											
Transfers to reserves		-	-	-	-	-	261	(261)	-	-	-
Balance at 31 December 2017	**22**	**175,000**	**6,868**	**-**	**(1,433)**	**1,207**	**5,167**	**16,815**	**203,624**	**-**	**203,624**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	Audited 31 December 2018	Audited 31 December 2017
Cash flows from operating activities			
Profit for the year		**6,860**	**6,565**
Adjustments for:			
Depreciation and amortization expense	12,13	4,004	3,971
Impairment losses on loans and credit related commitments		14,443	2,042
Income tax expense	19	2,534	131
Provision for employee benefits		(61)	995
Net interest income		101,538	56,616
Net fee and commission income		18,269	13,815
Collections from written off loans		2,626	972
Payments to personnel and service suppliers		(63,733)	(54,099)
Taxes paid		(78)	2
		86,402	**31,010**
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		(886)	-
Loans and advances to banks and customers		150,131	(190,455)
Other assets		203,603	(6,083)
Deposits from banks and customers		(218,808)	73,442
Other borrowed funds		(65,535)	15,463
Other liabilities		(8,139)	(66,839)
Net cash (used in) / from operating activities		**146,768**	**(143,462)**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	12,13	(9,685)	(1,281)
Proceeds from sales of property and equipment		-	149
Acquisition of financial assets measured at fair value through other comprehensive income	9	(9,814)	-
Proceeds from sales of financial assets measured at fair value through other comprehensive income	9	3,190	-
Acquisition of available for sale financial assets	9	-	-
Proceeds from sales of available for sale financial assets	9	-	42,420
Proceeds from sale of subsidiaries		9,197	-
Net cash (used in) investing activities		**(7,112)**	**41,288**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities issued		(23,816)	58,048
Repayment of funds borrowed and debt securities issued		(7,109)	(59,000)
Net cash used in financing activities		**(30,925)**	**(952)**
Net (decrease)/increase in cash and cash equivalents		**108,731**	**(103,126)**
Cash and cash equivalents at the beginning of the year	5	**212,064**	**285,153**
Effect of exchange rate fluctuations on cash and cash equivalents		99,250	30,037
Cash and cash equivalents at the end of the year	**5**	**420,045**	**212,064**

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

1. GENERAL INFORMATION

Turkish Bank A.Ş. ("the Bank") was incorporated in Turkey on 14 September 1991 and commenced operations on 25 December 1991. The registered office address of the Bank is as follows: Vali Konağı Cad. 1, 34371 Nişantaşı - Istanbul, Turkey. The Bank has 11 branches (2017: 12). The Bank and its subsidiaries in total have 230 employees as of 2017 (2017: 271).

Pursuant to the permission of Competition Board dated 8 November 2008 and numbered 07-85/1045-405 and the permission of Banking Regulation and Supervision Agency dated 28 December 2008 and numbered 17591, National Bank of Kuwait acquired 31.43% of shares of the Bank amounting to TL 22,000 from Özyol Holding A.Ş. The Board of Directors approved the acquisition on 10 January 2008 and the share transfer was registered on 29 January 2008.

Upon the resolution carried at the extraordinary general meeting of the shareholders held on 29 January 2008, the Bank's paid-in capital (TL 70,000) was raised to TL 80,000 by a cash increase of TL 10,000. Increase in paid-in capital was registered in the Trade Registry Gazette No: 6995 on 8 February 2008. The entire increase amount was paid in by the new shareholder National Bank of Kuwait as of the date of the extraordinary general meeting. The share of National Bank of Kuwait in the Bank's paid in capital increased to 40% after the capital increase. The shares issued during the capital increase are premium shares. National Bank of Kuwait paid TL 47,448 (USD 40,000) in respect of nominal shares of TL 10,000 and the difference of TL 37,448 was accounted as premium in excess of par.

At the extraordinary general meeting of the Bank held on 25 May 2012, the following decisions have been made by the majority of votes:

- The Bank's paid in capital amounting to TL 80,000 will be increased to TL 175,000 and TL 70,000 of the increased amount will be covered by internal resources, including TL 37,448 of Share Premiums, TL 19,032 of Inflation Difference, TL 13,520 of Extraordinary Reserves and the remaining amount, which equals to TL 25,000, will be covered in cash; and
- TL 25,000 of cash of which is the committed part of the capital increase will include TL 7,500 of payment in June 2014 and April 2013 (amounting to TL 15,000) and TL 10,000 of payment in April 2014 with reserving the Bank's General Assembly's earlier payment call right.

Procedures both related to TL 70,000 of the increased capital amount which will be covered by internal resources and the first TL 7,500 of capital increase portion were completed upon the Banking Regulation and Supervision Agency's letters of approval issued as at 28 May 2012 and 10 August 2012, respectively and related accounting was recognized in the financial statements accordingly.

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

1. GENERAL INFORMATION (cont'd)

As of 31 December 2018 and 31 December 2017, the composition of shareholders and their respective % of ownership are summarized as follows:

	31 December 2018		31 December 2017	
	Amount	**%**	**Amount**	**%**
Özyol Holding A.Ş.	103,118	58.92	103,118	58.92
National Bank of Kuwait	60,000	34.29	60,000	34.29
Mehmet Tanju Özyol	9,861	5.63	9,861	5.63
Others	2,021	1.16	2,021	1.16
Total	**175,000**	**100**	**175,000**	**100**

The Group Information

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

The operations of the Group consist of banking, securities brokerage.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 31 December 2018 and 31 December 2017 are as follows:

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		2018	**2017**
Turkish Yatırım A.Ş.	Turkey	99.99	99.99
Turkish Bilgi İşlem Hizmetleri A.Ş.(*)	Turkey	99.99	99.99

(*) Turkish Bilgi İşlem Hizmetleri A.Ş. was founded as of 22 October 2015 with the permission of Banking Regulation and Supervision Agency. Since the company has immaterial asset and income size as of the 31 December 2018, Turkish Bilgi İşlem Hizmetleri A.Ş. is not taken into consolidation scope.

Turkish Yatırım A.Ş.

Turkish Yatırım A.Ş. was established on 31 December 1996 to deal with capital market activities according to the related regulations and the Capital Market Law. The head office of the Company is domiciled in Abdi İpekçi Caddesi, No: 57, Reasürans Han Kat: 5 Harbiye - İstanbul - Turkey.

Turkish Bilgi İşlem Hizmetleri A.Ş.

Turkish Faktoring Hizmetleri A.Ş. was established on 9 May 2007 to provide both domestic and export factoring services to industrial and commercial enterprises.

Pursuant to the application of Turkish Faktoring A.Ş. and the permission of Banking Regulation and Supervision Agency dated 23 July 2015 and numbered 6379, the Company's official authorization cancelled. As of 22 October 2015, the Company name became Tukish Bilgi İşlem Hizmetleri A.Ş. The Company provides export and import services of computers and other hardware and the establishments of data processing centres.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank and its subsidiary which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Commercial Code and Tax Legislation.

The consolidated financial statements as at 31 December 2018 of the Bank are authorised for issue by the management on 30 April 2019. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

In preparation of the consolidated financial statements of the Group, the same accounting policies except than IFRS 9 Financial Instruments (“IFRS 9”) and IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) and applied with the accounting policies applied to the comparative periods.

This is the first set of the Group’s annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. In accordance with the transition rules of IFRS 9, the prior period financial statements and notes are not restated. Accounting policies and valuation principles used for the year 2018 and 2017 periods are separately presented in the footnotes.

The Group has started to apply IFRS 9 in the accompanying consolidated financial statements starting from 1 January 2018 for the first time based in connection with procedures and principals regarding classification of loans and allowances allocated for such loans which came into force starting from 1 January 2018.

IFRS 15 Revenue from contracts with customers standard provides single and comprehensive model and guidance regarding recognition of revenue and replaces IAS 18 Revenue standard. The standard is in effect starting from 1 January 2018 and does not have significant impact on the accompanying consolidated financial statements.

The Group does not expect that application of IFRS 16 Leases (“IFRS 16”) will have significant impact on its consolidated financial statements which will be effective starting from 1 January 2019.

2.2 Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation, except for the following:

- derivative financial instruments are measured at fair value
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income

2.3 Inflation accounting:

The financial statements of the Bank and its subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 Use of estimates and judgements:

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at end for the year ended 31 December 2017 except than estimations used for expected credit loss calculation in accordance with IFRS 9 explained in Note 2.7.

2.5 Basis of Consolidation:

The consolidated financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional currency.

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.6 Income and Expense Recognition:

Interest is recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the IFRS 9 Financial instruments standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, such fees are accounted as revenue or expense when the instrument is initially recognised in the financial statements.

When applying the effective interest method, it is amortised any fees, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.6 Income and Expense Recognition (cont'd):

In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest income of the period after the acquisition is recorded as interest income in the financial statements.

If the expectations for the cash flows in the financial asset are revised for reasons other than the credit risk, the amendment is reflected in the carrying amount of the asset and in the related statement of profit or loss and other comprehensive income line and is amortised over the estimated life of the financial asset.

If the financial asset is impaired and classified as a non-performing receivable, the effective interest rate is applied to the amortised cost of the asset for subsequent reporting periods. Such interest income calculation is performed on an individual contract basis for all financial assets subject to impairment calculation. The effective interest rate is used for the calculation of loss given default parameter in the expected credit loss models and therefore the calculated expected credit losses, includes this calculated interest amount. Accordingly a reclassification is performed between the accounts of "expected credit losses" expense and "interest income from loans" for such calculated interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), the system calculates interest income at subsequent reporting periods by applying the effective interest rate to the gross amount.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are provided. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Net trading income/(expense) includes gains and losses arising from sale of financial assets measured at fair value through profit or loss (FVPL) and through other comprehensive income (FVOCI) in addition to changes in fair value of financial assets measured at FVPL and derivatives.

2.7 Functional and Presentation Currency and Foreign Currency Transactions:

Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira ("TL"), which is the functional currency of the Bank and its subsidiaries, and the presentation currency for the consolidated financial statements.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

As at 31 December 2018 and 31 December 2017 foreign currency assets and liabilities of the Group are mainly in USD and Euro. As of 31 December 2018 and 31 December 2017 exchange rates of USD and Euro are as follows:

	2018	2017
1 USD	5.2609	3.8104
1 Euro	6.0280	4.5478

Average rates for the last thirty dates are as follows:

	2018	2017
1 USD	5.3045	3.8494
1 Euro	6.0376	4.5572

2.8 Financial assets:

Recognition

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

When a financial asset or liability is initially recognized, it is accounted for taking into account its fair value, or in the case of a financial asset or liability reflected at fair value, the transaction cost which can be directly related to acquisition of the relevant financial asset or commitment of the financial liability.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd):

Classification and measurement of financial instruments

The classification of financial instruments at the time of initial recognition depends on both the business model for managing the financial assets and contractual cash flow characteristics of the financial asset.

In accordance with IFRS 9, a financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

In accordance with IFRS 9, the business model is determined at a level that demonstrates how the financial asset groups are managed together to achieve a specific management objective.
As at 1 January 2018, all financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in three main categories as listed below:

- Financial assets at fair value through profit or loss ("FVPL")
- Financial assets at fair value through other comprehensive income (FVOCI")
- Financial assets measured at amortised cost

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or 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 are recorded under net trading income/(expense) in the statement of profit or loss.

Financial assets measured at fair value through other comprehensive income

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured 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 measured at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets measured at fair value through other comprehensive income and dividend income from equity securities are recorded to statement of profit or loss. "Unrealized gains and losses" arising from the difference between the amortised cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Items that are or may be reclassified subsequently to profit or loss" under shareholders' equity.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd):

***Classification and measurement of financial instruments* (cont'd)**

***Financial assets measured at fair value through other comprehensive income* (cont'd)**

Equity securities, which are classified as financial assets measured at fair value through other comprehensive income, are carried at fair value.

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis. Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

Financial assets measured at amortised cost

Starting from 1 January 2018, financial assets are classified as measured at amortised cost if both of the following conditions are met.

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method. And, Loans are financial assets with fixed or determinable payments and not quoted in an active market. Loans and receivables are recognised at cost and also measured at amortised cost by using the effective interest method.

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

Loans

Loans are non-derivative financial assets that have fixed or determinable payments terms and are not quoted in an active market. Stated loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortised cost using the "Effective Interest Rate (internal rate of return) Method".

The Group measures its loans and advances to banks and customers at amortised cost.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd):

Impairment of financial assets

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Expected credit losses

As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. The expected credit losses are estimated to be unbiased, weighted according to probabilities, and include information that can be supported about past events, current conditions and future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information. These financial assets are divided into three categories depending on the gradual. The Group calculates expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon, which is usually set at 12 months, given certain characteristics. The Group uses two different probability of default rates while calculating expected credit losses as per the IFRS 9.

- 12-month PD: as the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months) following the balance sheet date.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjust the potential increase of the exposure between the current date and the default date.

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: Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

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.

Forward-looking macroeconomic information

The Bank incorporates forward-looking macroeconomic information when assessing the significant increase in credit risk and expected credit loss calculation.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd):

Impairment of financial assets (cont'd)

Significant increase in credit risk

In the event of a significant increase in credit risk, the financial asset is transferred to Stage 2.

Qualitative factors taken into determining the significant increase in the credit risk of a financial asset as follows;

- loans with a delay days of more than 30 days as of reporting date
- loans with unfavorable developments in the ability to pay or cash flow even if there is no deferment
- loans classified to close monitoring by the Bank's management discretion
- loans given to companies whose financial data has deteriorated significantly
- loans with a significant decrease in collateral value

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

2.9 Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd):

2.10 Financial liabilities:

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

The Group does not have financial liabilities at FVTPL as of 31 December 2018 and 31 December 2017.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest-bearing deposits and borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Off balance sheet commitments and contingencies

The Group deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, prefinancing loans, etc. The Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.11 Fair value considerations:

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms-length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted for at amortised cost but disclosure is required of fair value for comparison purposes, wherever practicable.

Due to economic conditions and volatility or low trading volumes in markets, the Group may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets and calculation of present values on an amortised cost basis. Where no reliable estimate of fair value is available, amortised cost is used as the carrying value. As there are a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would never differ significantly from market rates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.
Securities investments: Fair value is estimated using quoted market prices wherever applicable. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

Loans and advances to customers: The major portion of the loans is short-term and has interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

Deposits: Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.12 Derivative financial instruments:

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards and currency swaps in the capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. IFRS 9 also includes new hedge accounting rules aiming alignment with risk management activities. IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting provisions of IAS 39 as a policy choice. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in profit or loss.

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

The Group's derivative transactions are mainly in the form of forwards and currency swaps.

The Group does not have any derivatives held for risk management purposes.

2.13 Investments under resale or repurchase transactions:

Purchases or sales of investments under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase ("Repos") are retained in the balance sheet and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as financial assets at fair value through profit or loss, financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income, and interest expense is accounted for on an accrual basis over the period of the transactions.

Purchases of securities under agreements of resale ("reverse repos") are separately disclosed under assets as "funds lent under securities resale agreements" and interest income on such transactions is accounted for on an accrual basis over the period of transactions.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.14 Leasing - the Group as lessor:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Provision for doubtful finance lease receivables and other receivables are recognized as an expense and written off against the profit for the year. Provision for receivables under follow-up is allocated assessing the Group's loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current finance lease receivables.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.15 Leasing - the Group as lessee:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2.16 Property and equipment:

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.16 Property and equipment (cont'd):

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Premises and equipment are depreciated on a straight-line basis using the following main rates which write off the assets over their expected useful lives:

Buildings	2%
Vehicles	20%
Machinery and equipment	20%
Furniture and fixtures	20%
Other 20%	

Leasehold improvements are depreciated based on the shorter of the rental period or useful life of the assets.

2.17 Intangible assets:

Intangible assets of the Group consist of computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

2.18 Impairment of non-financial assets:

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.19 Borrowing costs:

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.20 Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.21 Severance indemnity provision:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

2.22 Taxation and deferred income taxes:

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

In Turkey, the corporate tax rate is 20% since 1 January 2006. With the Law, No. 7061 Amendment of Certain Taxes and Laws and Other Acts promulgated in the Official Gazette dated 5 December 2017, tax rate will applied as 22% for three years between 2018 and 2020. In addition, Council of Ministers is authorised to reduce the rate from 22% to 20%.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.22 Taxation and deferred income taxes (cont'd):

Deferred tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Corporate Tax Law has been amended with Article 91 of the Law, No. 7061 effective upon promulgation in the Official Gazette, No. 30261, dated 5 December 2017; and the corporate tax levied on the corporate income has been increased from 20% to 22% to be applied for the income belonging to 2018, 2019 and 2020. The Group calculates deferred tax at the relevant rates considering the periods in which deferred tax assets and liabilities will be fulfilled. However, because of the corporate tax rate is 20% and applicable to post 2020, 20% tax rate is used for temporary differences expected / expected to be closed after 2020.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

2.23 Business and geographical segments:

Business Segments

For key decision makers' review purposes, the Group is currently organized into the operating divisions of banking and securities brokerage. These divisions are the basis on which the Group reports its primary segment information.

Geographical Segments

The Group's operations are mainly located in Turkey.

2.24 Customer assets:

Customer assets, except for deposits accepted and other cash proceeds obtained, held under custody, in fiduciary, agency or intermediary capacity are not recognized in the accompanying consolidated financial statements as customers have ownership of such assets.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Earnings per share:

Earnings per share disclosed in the consolidated statement of profit or loss are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	2018	**2017**
Profit attributable to equity holders of the Bank	6,860	6,565
Weighted average number of ordinary shares in issue (thousand)	175,000	175,000
Basic earnings and diluted per thousand share (expressed in full TL)	**0.0392**	**0.0375**

The Bank does not have any diluted shares.

2.26 New standards and interpretations not yet adopted:

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however, the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRIC 23 –Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.26. New standards and interpretations not yet adopted (cont'd):

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards.

It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle for applicable standards. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.26 New standards and interpretations not yet adopted (cont'd):

Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

Amendments to IFRS 9 - Prepayment Features With Negative Compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify those financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The Group does not expect that application of these amendments to IAS 19 will have significant impact on its consolidated financial statements

Improvements to IFRSs

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The Group does not expect that application of these amendments to IAS 1 and IAS 8 will have significant impact on its consolidated financial statements.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The Group does not expect that application of these amendments to IFRS 3 will have significant impact on its consolidated financial statements.

3. CHANGE IN ACCOUNTING POLICY: IFRS 9 TRANSITION

IFRS 9 "Financial Instruments", which is effective beginning from 1 January 2018 replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

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

In accordance with the transition rules option provided by the IFRS 9 "Financial Instruments", the Group did not restate the prior period financial statements and recognized the transition effect of the Standard at the opening of the retained earnings as at 31 December 2018.

Explanation on the Group's transition to IFRS 9 is as follows:

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

3. CHANGE IN ACCOUNTING POLICY: IFRS 9 TRANSITION (cont'd)

	31 December 2017	IFRS 9 Reclassification effect	IFRS 9 Measurement effect	1 January 2018
Assets				
Cash and balances with the Central Bank of Turkey	100,552	-	-	100,552
Loans and advances to banks	95,845	-	(19)	95,826
Money market placements	15,667	-	(125)	15,542
Financial assets measured at fair value through profit or loss	-	11,219	-	11,219
Trading investment securities	*11,219*	*(11,219)*	-	-
Derivative financial instruments	1,157	-	-	1,157
Investment securities	10,380	-	-	10,380
-Available for sale	*10,380*	*(10,380)*	-	-
-Financial assets at fair value through other comprehensive income	-	*10,380*	-	*10,380*
Loans and advances to customers	1,220,490	898	2,688	1,224,076
Allowance for individually impaired loans	(20,965)	20,965	-	-
Allowance for collectively impaired loans	(5,808)	5,808	-	-
Expected credit losses	**-**	**(25,875)**	**2,688**	**(23,187)**
Stage 1	-	*(4,260)*	*2,781*	*(1,479)*
Stage 2	-	*(650)*	*(1,275)*	*(1,925)*
Stage 3	-	*(20,965)*	*1,182*	*(19,783)*
Property and equipment	14,240	-	-	14,240
Intangible assets	4,183	-	-	4,183
Deferred tax assets	2,689	-	-	2,689
Other assets	125,784	(179)	(19)	125,586
TOTAL ASSETS	**1,602,206**	**719**	**2,525**	**1,605,450**
Liabilities				
Deposits	1,172,952	-	-	1,172,952
Obligations under repurchase agreements and money market funding	19,967	-	-	19,967
Funds borrowed	92,103	-	-	92,103
Derivative financial liabilities	1,301	-	-	1,301
Debt securities issued	60,250	-	-	60,250
Current tax liability	3,620	-	-	3,620
Deferred tax liability	-	-	408	408
Employee benefits and other provisions	6,573	-	-	6,573
Other liabilities	41,816	719	(510)	42,025
TOTAL LIABILITIES	**1,398,582**	**719**	**(102)**	**1,399,199**
EQUITY				
Share capital	175,000	-	-	175,000
Adjustment to share capital	6,868	-	-	6,868
Legal reserves	5,167	-	-	5,167
Items that are or may be reclassified subsequently to profit or loss	1,207	(1,222)	-	(15)
Items that will not be reclassified to profit or loss	(1,433)	1,222	-	(211)
Retained earnings	16,815	-	2,627	19,442
Total equity attributable to owners of the Bank	**203,624**	**-**	**2,627**	**206,251**
Non-controlling interests	**-**	**-**	-	**-**
TOTAL EQUITY	**203,624**	**-**	**2,627**	**206,251**

3. CHANGE IN ACCOUNTING POLICY: IFRS 9 TRANSITION (cont'd)

3.1 Explanations on prior period accounting policies not valid for the current period

"IFRS 9: Financial Instruments" standard came into effect instead of "IAS 39 Financial Instruments: Recognition and Measurement" as of 1 January 2018. Accounting policies lost their validity with the transition of IFRS 9 are given below.

Financial assets:

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss" ("FVTPL"), "held-to-maturity investments", "available-for-sale" ("AFS") financial assets and "loans and receivables".

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognized on an effective yield basis. The Group does not have held-to-maturity investments as of the balance sheet date.

Available-for-sale financial assets

Investments other than held-to-maturity debt securities and held for trading securities are classified as available-for-sale, and are measured at subsequent reporting dates at fair value except available-for-sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power. Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

3. EXPLANATIONS OF IFRS 9 FINANCIAL INSTRUMENTS (cont'd)

3.1 Explanations on prior period accounting policies not valid for the current period (cont'd)

The Group's investments are composed of Turkish Republic Government bonds, Treasury bills which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices and subsequently measured as explained above in accordance with their classification.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Loans and allowance for impairment losses:

Loans are financial instruments extended by the Bank and accounted for at amortised cost using the effective interest rate method, except for certain loans wherever straight line accrual basis does not materially differ from amortised cost method.

Based on its evaluation of the current status of the loans granted, the Bank provides allowance for impairment losses on loans which it considers are adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income in the periods in which they become known.

The Bank classifies any loan which is not adequately collateralized or the management believing borrowers lost their creditworthiness into overdue loans. The Bank ceases to recognize income on overdue loans and receivables.

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

4. SEGMENT REPORTING

Business segments

2018	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Net interest income	35,965	25,268	5,630	14,822	81,685
Net fee and commission income	3,888	4,399	9,323	(4,218)	13,392
Foreign exchange gains / (losses), net	-	-	37	(34,147)	(34,110)
Trading gains and losses, net	-	-	266	26,207	26,473
Gains / losses from investment securities, net	-	-	1,094	86	1,180
Other operating income	1,724	684	545	7,730	10,683
Impairment losses on loans and advances, net	-	-	-	(14,443)	(14,443)
Other operating expenses	(12,489)	(5,442)	(14,173)	(43,362)	(75,466)
Profit / (Loss) before income tax	**29,088**	**24,909**	**2,722**	**(47,325)**	**9,394**
Income tax expense	-	-	(635)	(1,899)	(2,534)
Net profit / (Loss)	**29,088**	**24,909**	**2,087**	**(49,224)**	**6,860**

Balance Sheet	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Total assets	**422,958**	**507,062**	**-**	**739,348**	**1,669,368**
Liabilities	1,059,509	149,364	129,629	117,842	1,456,344
Equity	-	-	-	213,024	213,024
Total liabilities and equity	**1,059,509**	**149,364**	**129,629**	**330,866**	**1,669,368**

2017	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Net interest income	18,736	15,239	4,086	30,453	68,514
Net fee and commission income	3,298	4,124	7,375	(4,214)	10,583
Foreign exchange gains / (losses), net	-	-	48	(7,799)	(7,751)
Trading gains and losses, net		-	536	(1,272)	(736)
Gains / losses from investment securities, net	-	-	349	(269)	80
Other operating income	1,354	402	40	908	2,704
Impairment losses on loans and advances, net	392	-	-	(2,434)	(2,042)
Other operating expenses	(12,579)	(4,857)	(11,006)	(36,214)	(64,656)
Profit / (Loss) before taxations	**11,201**	**14,908**	**1,428**	**(20,841)**	**6,696**
Income tax expense	-	-	(300)	169	(131)
Net profit / (Loss)	**11,201**	**14,908**	**1,128**	**(20,672)**	**6,565**

Balance Sheet	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Total assets	**458,414**	**729,879**	**73,382**	**340,531**	**1,602,206**
Liabilities	811,476	268,999	44,175	273,932	1,398,582
Equity	-	-	-	203,624	203,624
Total liabilities and equity	**811,476**	**268,999**	**44,175**	**477,556**	**1,602,206**

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

5. CASH AND CASH EQUIVALENTS

	2018	2017
Cash on hand	22,755	13,058
Demand deposit with the Central Bank of Turkey	79,184	87,494
Total	**101,939**	**100,552**

a) Balances with the Central Bank

	2018	2017
Demand deposits – Turkish Lira	6,673	19,515
Demand deposits – Foreign Currency	72,511	67,979
Total	**79,184**	**87,494**

b) Reserve deposits at the Central Bank

	2018	2017
Reserves – Foreign Currency (Note 14)	188,953	103,724
Total	**188,953**	**103,724**

Banks that are established in Turkey or performing their operations by opening new branches in Turkey are subject to the Central Bank of the Republic of Turkey's ("CBT") Communiqué numbered 2013/15 "Required Reserves". The Bank's total domestic liabilities excluding the items stated in the Communiqué as deductibles, the deposits accepted on behalf of foreign branches from Turkey and loans obtained by the banks but followed under foreign branches constitute the required reserves liabilities.

The reserve rates for TL liabilities vary between 1.50% and 8.00% for TL deposits and other liabilities according to their maturities as of. The reserve rates for foreign currency deposits vary between 8.00% and 12.00% and for other foreign currency liabilities between 4.00% and 20.00% as of 31 December 2018.

CBT started to pay interest for the Turkish Lira reserve since November 2015.

Cash and cash equivalents at the end of the period:

	2018	2017
Cash	**198,542**	**100,552**
Cash in TL / Foreign currency	22,755	13,058
CBRT	79,184	87,494
Loans and advances to banks	96,603	-
Cash equivalents	**221,503**	**111,512**
Interbank money market	178,739	15,667
Loans and advances to banks (Up to 3 month)	42,764	95,845
Total cash and cash equivalents	**420,045**	**212,064**

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

6. LOANS AND ADVANCES TO BANKS

	2018	2017
Domestic Banks		
Demand deposits – Turkish Lira	748	18
Demand deposits – Foreign currency	28,399	1,127
Time deposits – Turkish Lira	12	15
Time deposits – Foreign currency	98,531	58,570
Total	**127,690**	**59,730**
Foreign Banks		
Demand deposits – Foreign currency	11,685	36,115
Total	**11,685**	**36,115**
Expected credit losses	**(8)**	**-**
Grand Total	**139,367**	**95,845**

The time deposits in Turkish Lira above mature within one month and earn interest at rates ranging from 17.00% to 24.00% (31 December 2017: from 11.75% to 12.75%) per annum. The time deposits in foreign currency above mature within one month and earn interest at rates ranging from 0.01% to 2.50% (31 December 2017: from 0.02% to 2.75%) per annum.

The credit quality analysis of loans and advances to banks as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	139,375	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(8)	-	-
Total carrying amount	**139,367**	**-**	**-**

The movement of loss allowance per asset class for loans and advances to banks as of 31 December 2018 as follows:

	Stage 1	Stage 2	Stage 3	Total
Balances at 31 December 2017	**-**	**-**	**-**	**-**
Impact of adopting IFRS 9 at 1 January 2018	(19)	-	-	(19)
Balances at 1 January 2018	**(19)**	**-**	**-**	**(19)**
Provision for the period	3	-	-	3
Recoveries and reversals	14	-	-	14
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Balances at the end of the period	**(8)**	**-**	**-**	**(8)**

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

7. MONEY MARKET PLACEMENTS

	2018	2017
Interbank placements	178,857	5,161
Funds lent under reverse repurchase agreements	-	10,506
Expected credit losses	(118)	-
Total	**178,739**	**15,667**

The credit quality analysis of money market placements as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	178,857	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(118)	-	-
Total carrying amount	**178,739**	**-**	**-**

The movement of loss allowance per asset class for money market placements as of 31 December 2018 as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balances at 31 December 2017	-	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	(125)	-	-	(125)
Balances at 1 January 2018	**(125)**	**-**	**-**	**(125)**
Provision for the period	3	-	-	3
Recoveries and reversals	10	-	-	10
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Balances at the end of the period	**(118)**	**-**	**-**	**(118)**

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

8. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
Financial assets at fair value through profit or loss	451	-
Trading investment securities	-	11,219
	451	**11,219**

Financial assets at fair value through profit or loss

	2018
Government bonds	451
Total	**451**

Trading investment securities

	2017
Government bonds	11,219
Total	**11,219**

9 INVESTMENT SECURITIES

	2018	2017
Investment securities measured at FVOCI – debt investments	11,813	-
Investment securities measured at FVOCI – equity investments	3,451	-
Available-for-sale investment securities	-	10,380
Total	**15,264**	**10,380**

Investment securities measured at FVOCI – debt investments

	2018	2017
Government bonds and treasury bills	11,813	7,404
Debt investment measured at FVOCI	**11,813**	**7,404**

As of 31 December 2018, the government bonds and treasury bills with fair value of TL 11,813 (31 December 2017: 7,404). The funds collected from those repo transactions were TL 8,559 (31 December 2017: None) and they are included in obligations under repurchase agreements.

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

9 INVESTMENT SECURITIES (cont'd)

The blocked securities kept by the Central Bank and IMKB (Istanbul Stock Exchange) Takas ve Saklama Bankası A.Ş. for the purposes of trading guarantee on interbank, bond, repurchase and reverse repurchase markets and custody services as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018		31 December 2017	
	Nominal Value	Carrying Value	Nominal Value	Carrying Value
Government bonds and treasury bills	12,100	11,813	7,110	7,404

Investment securities measured at FVOCI – equity investments

31 December 2018	Carrying Value	Ownership %
Share in Visa inc.	1,934	0.0
Borsa İstanbul	1,517	0.4
Equity investment measured at FVOCI	**3,451**	

31 December 2017	Carrying Value	Ownership %
Share in Visa inc.	1,459	0.0
Borsa İstanbul	1,517	0.4
Available-for-sale equity investments	**2,976**	

The movement in financial assets measured at fair value through other comprehensive income may be summarized as follows:

	31 December 2018
Balance as at 1 January	**10,380**
Additions	9,814
Disposals (sales and redemption)	(3,190)
Net changes in fair value	(1,740)
Balance as at 31 December	**15,264**

The movement in available for sale financial assets may be summarized as follows:

	31 December 2017
Balance as at 1 January	**52,800**
Additions	-
Disposals (sales and redemption)	(42,608)
Net changes in fair value	188
Balance as at 31 December	**10,380**

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments depend on movements in price in one or more underlying instruments, reference rates or indices.

Derivative financial instruments of the Group mainly include forwards, cross currency swaps and interest rate swaps.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Derivative financial assets measured at FVTPL	**2018**		**2017**	
	TL	**FC**	**TL**	**FC**
Forward transactions	13	734	9	455
Swap transactions	235	163	459	220
Options	-	2	-	14
Total	**248**	**899**	**468**	**689**

Derivative financial liabilities measured at FVTPL	**2018**		**2017**	
	TL	**FC**	**TL**	**FC**
Forward transactions	23	-	5	-
Swap transactions	191	2,078	994	293
Options	-	5	-	9
Total	**214**	**2,083**	**999**	**302**

The fair values and nominal amounts of derivative instruments with their contractual maturities are set out in the following table:

	2018							
	Fair value assets	**Fair value liabilities**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Notional amount in TL equivalent**
Forward exchange contracts	**747**	**23**	**2,378**	**544**	**-**	**-**	**-**	**2,922**
Purchases	-	-	*2,280*	*281*	-	-	-	*2,561*
Sales	-	-	*98*	*263*	-	-	-	*361*
Currency swap	**398**	**2,269**	**414,077**	**-**	**-**	**-**	**-**	**414,077**
Purchases	-	-	*167,690*	-	-	-	-	*167,690*
Sales	-	-	*246,387*	-	-	-	-	*246,387*
Options	**2**	**5**	**56,581**	**-**	**-**	**-**	**-**	**56,581**
Purchases	-	-	*56,581*	-	-	-	-	*56,581*
Sale	-	-	-	-	-	-	-	-
Total	**1,147**	**2,297**	**473,036**	**544**	**-**	**-**	**-**	**473,580**

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

10. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

	2017							
	Fair value assets	**Fair value liabilities**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Notional amount in TL equivalent**
Forward exchange contracts	**466**	**5**	**4,438**	**3,906**	**-**	**-**	**-**	**8,344**
Purchases	-	-	*4,397*	*3906*	-	-	-	*8,303*
Sales	-	-	*41*	-	-	-	-	*41*
Currency swap	**550**	**993**	**559,124**	**43,901**	**-**	**-**	**-**	**603,025**
Purchases	-	-	*279,221*	*21,736*	-	-	-	*300,957*
Sales	-	-	*279,903*	*22,165*	-	-	-	*302,068*
Interest rate swap	**141**	**303**	**-**	**57,156**	**98,956**	**-**	**-**	**156,112**
Purchases	-	-	-	*28,578*	*49,478*	-	-	*78,056*
Sale	-	-	-	*28,578*	*49,478*	-	-	*78,056*
Total	**1,157**	**1,301**	**563,562**	**104,963**	**98,956**	**-**	**-**	**767,481**

11. LOANS AND ADVANCES TO CUSTOMERS

	2018
Corporate loans	292,742
Small and medium enterprise loans	559,546
Consumer loans	10,740
Credit card receivables	1,302
Other	152,733
Subtotal	**1,017,063**
Stage 1 expected credit losses	(941)
Stage 2 expected credit losses	(1,458)
Stage 3 expected credit losses	(33,441)
Total	**981,223**

	2017
Corporate loans	420,567
Small and medium enterprise loans	392,478
Consumer loans	4,708
Credit card receivables	1,317
Other	428,193
Subtotal	**1,247,263**
Specific allowance for impairment losses on loans	(20,965)
Collective allowance for loan losses	(5,808)
Total	**1,220,490**

Average interest rates applied to loans and advances to customers are as follows:

31 December 2018	**EUR %**	**USD %**	**TRY %**
Loans and advances to customers	5.69	8.05	25.77

31 December 2017	**EUR %**	**USD %**	**TRY %**
Loans and advances to customers	5.11	6.64	16.58

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

11. LOANS AND ADVANCES TO CUSTOMERS (cont'd)

31 December 2018	**Corporate**	**SME**	**Consumer**	**Other**	**Total**
Neither past due not impaired	268,366	495,361	6,221	140,946	910,894
Past due not impaired	-	53,283	5,762	8,270	67,315
Individually impaired	24,376	10,902	59	3,517	38,854
Total gross	**292,742**	**559,546**	**12,042**	**152,733**	**1,017,063**
12 month ECL (stage 1)	841	51	20	29	941
Lifetime ECL significant increase in credit risk (stage 2)	-	32	30	1,396	1,458
Lifetime ECL impaired credits (stage 3)	24,275	7,903	511	752	33,441
Total expected credit loss	**25,116**	**7,986**	**561**	**2,177**	**35,840**
Total loans (net)	**267,626**	**551,560**	**11,481**	**150,556**	**981,223**

31 December 2017	**Corporate**	**SME**	**Consumer**	**Other**	**Total**
Neither past due nor impaired	399,661	347,288	5,958	427,094	1,180,001
Past due not impaired	5,688	39,948	8	653	46,297
Individually impaired	15,218	5,242	59	446	20,965
Total gross	**420,567**	**392,478**	**6,025**	**428,193**	**1,247,263**
Less: allowance for individually impaired loans	15,218	5,242	59	446	20,965
Less: allowance for collectively impaired loans	-	-	-	5,808	5,808
Total allowance for impairment	**15,218**	**5,242**	**59**	**6,254**	**26,773**
Total loans (net)	**405,349**	**387,236**	**5,966**	**421,939**	**1,220,490**

The credit quality analysis of loans and advances to customers as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	910,894	67,315	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	38,854
Loss allowance	(941)	(1,458)	(33,441)
Total carrying amount	**909,953**	**65,857**	**5,413**

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

11. LOANS AND ADVANCES TO CUSTOMERS (cont'd)

Movement in expected credit losses for loans are as follows:

	Stage 1	Stage 2	Stage 3	Total
Balances at 31 December 2017	**(4,260)**	**(650)**	**(20,965)**	**(25,875)**
Impact of adopting IFRS 9 at 1 January 2018	2,781	(1,275)	1,182	2,688
Balances at 1 January 2018	**(1,479)**	**(1,925)**	**(19,783)**	**(23,187)**
Provision for the period	75	903	18,377	19,355
Recoveries and reversals	33	-	4,719	4,752
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	506	-	-	506
Transfer to stage 3	74	1,370	-	1,444
Balances at the end of the period	**(941)**	**(1,458)**	**(33,441)**	**(35,840)**

The total value of collaterals that the Group held for impaired loans as at 31 December 2018 was TL 5,481 (31 December 2017: TL 999). The total value of collaterals that the Group held for loans that are not impaired as at 31 December 2018 was TL 812,499 (31 December 2017: TL 948,518).

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

12. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Other fixed assets	Leasehold improvements	Total
Acquisition cost					
Opening balance, 1 January 2018	15,697	-	15,983	1,970	33,650
Additions	316	-	7,550	-	7,866
Disposals	(2,228)	-	(366)	-	(2,594)
Closing balance, 31 December 2018	**13,785**	**-**	**23,167**	**1,970**	**38,922**
Accumulated depreciation					
Opening balance, 1 January 2018	7,464	-	10,004	1,942	19,410
Charge for the year	270	-	1,673	4	1,947
Disposals	-	-	(411)	(13)	(424)
Closing balance, 31 December 2018	**7,734**	**-**	**11,266**	**1,933**	**20,933**
Net carrying amount as of 31 December 2018	**6,051**	**-**	**11,901**	**37**	**17,989**
Net carrying amount as of 1 January 2018	**8,233**	**-**	**5,979**	**28**	**14,240**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

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

12. PROPERTY AND EQUIPMENT (cont'd)

	Buildings	Vehicles	Other fixed assets	Leasehold improvements	Total
Acquisition cost					
Opening balance, 1 January 2017	13,486	83	14,332	1,970	29,871
Additions	2,231	-	1,705	-	3,936
Disposals	(20)	(83)	(54)	-	(157)
Closing balance, 31 December 2017	**15,697**	**-**	**15,983**	**1,970**	**33,650**
Accumulated depreciation					
Opening balance, 1 January 2017	7,196	83	8,578	1,915	17,772
Charge for the year	268	-	1,468	27	1,763
Disposals	-	(83)	(42)	-	(125)
Closing balance, 31 December 2017	**7,464**	**-**	**10,004**	**1,942**	**19,410**
Net carrying amount as of 31 December 2017	**8,233**	**-**	**5,979**	**28**	**14,240**
Net carrying amount as of 1 January 2017	**6,290**	**-**	**5,754**	**55**	**12,099**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

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

13. INTANGIBLE ASSETS

	Software	Total
Acquisition cost		
Opening balance, 1 January 2018	13,189	13,189
Additions	3,118	3,118
Disposals	-	-
Closing balance, 31 December 2018	**16,307**	**16,307**
Accumulated amortization		
Opening balance, 1 January 2018	9,006	9,006
Charge for the year	2,057	2,057
Disposals	-	-
Closing balance, 31 December 2018	**11,063**	**11,063**
Net carrying amount as of, 31 December 2018	**5,244**	**5,244**
Net carrying amount as of 1 January 2018	**4,183**	**4,183**

	Software	Total
Acquisition cost		
Opening balance, 1 January 2017	11,851	11,851
Additions	1,338	1,338
Disposals	-	-
Closing balance, 31 December 2017	**13,189**	**13,189**
Accumulated amortization		
Opening balance, 1 January 2017	6,798	6,798
Charge for the year	2,208	2,208
Disposals	-	-
Closing balance, 31 December 2017	**9,006**	**9,006**
Net carrying amount as of, 31 December 2017	**4,183**	**4,183**
Net carrying amount as of 1 January 2017	**5,053**	**5,053**

Estimated useful lives for intangible assets vary between three to fifteen years.

As at 31 December 2018, the Group has no intangible asset that has been generated internally (2017: None).

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

14. OTHER ASSETS

	2018	**2017**
Restricted amounts held with Central Bank (Note 5)	188,953	103,724
Clearance account	23,327	5,367
Cash advances given	3,580	4,810
Prepaid rent expense	-	1,048
Expected credit loss	(212)	-
Other	10,797	10,835
Total	**226,445**	**125,784**

The credit quality analysis of other assets as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	226,657	-	-
Stage 2: Watch list		-	-
Stage 3.1: Substandard		-	-
Stage 3.2: Doubtful		-	-
Stage 3.3: Loss		-	-
Loss allowance	(212)	-	-
Total carrying amount	**226,445**	**-**	**-**

The movement of loss allowances per asset class for other assets as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	**(179)**	**-**	**-**
Impact of adopting IFRS 9 at 1 January 2018	(19)	-	-
Balances at 1 January 2018	**(198)**	**-**	**-**
Provision for the period	**14**	**-**	**-**
Recoveries and reversals	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Balances at the end of the period	**(212)**	**-**	**-**

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

15. DEPOSITS

31 December 2018	**Time**	**Demand**	**Total**
TL Deposit	**360,105**	**28,748**	**388,853**
Savings deposits	326,272	18,759	345,031
Commercial deposits	17,881	9,737	27,618
Deposit from banks	15,952	252	16,204
Foreign banks	*11,948*	*132*	*12,080*
Domestic banks	*4,004*	*120*	*4,124*
FC deposits	**740,186**	**88,499**	**828,685**
Savings deposits	493,079	37,628	530,707
Commercial deposits	154,280	49,354	203,634
Deposit from banks	92,827	1,517	94,344
Foreign banks	*92,827*	*1,514*	*94,341*
Domestic banks	-	*3*	*3*
Total	**1,100,291**	**117,247**	**1,217,538**

Average interest rate for the customer deposits is 22.29% per annum for Turkish Lira deposits. For foreign currency deposits the average interest rate is 3.82% for USD deposits and 2.33% for Euro deposits (31 December 2017: 11.20% for Turkish Lira deposits, 3.44% for USD deposits and 2.06% for Euro deposits).

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

15. DEPOSITS (cont'd)

31 December 2017	**Time**	**Demand**	**Total**
TL Deposit	**362,090**	**26,478**	**388,568**
Savings deposits	279,867	10,745	290,612
Commercial deposits	49,157	15,327	64,484
Deposit from banks	33,066	406	33,472
Foreign banks	*16,023*	*353*	*16,376*
Domestic banks	*17,043*	*53*	*17,096*
FC deposits	**711,741**	**72,643**	**784,384**
Savings deposits	379,034	19,470	398,504
Commercial deposits	165,045	28,735	193,780
Deposit from banks	167,662	24,438	192,100
Foreign banks	*114,562*	*1,785*	*116,347*
Domestic banks	*53,100*	*22,653*	*75,753*
Total	**1,073,831**	**99,121**	**1,172,952**

16. OBLIGATIONS UNDER REPURCHASE AGREEMENTS AND MONEY MARKET FUNDING

	2018	**2017**
Money market borrowings	116,792	9,661
Obligations under reverse repurchase agreements	17,132	10,306
Total	**133,924**	**19,967**

17. FUNDS BORROWED

	2018	**2017**
Borrowings from banks located abroad:		
Unsecured foreign banks – TL short-term	11,928	6,337
Unsecured foreign banks – FC short-term	6,459	60,832
Total	**18,387**	**67,169**
Borrowings from domestic banks:		
Unsecured borrowings from local banks – TL short term	1,851	20,500
Unsecured borrowings from local banks – FC short term	6,189	4,434
Total	**8,040**	**24,934**
Grand Total	**26,427**	**92,103**

The interest rates for TL borrowings are between 18.92% and 23.00% (31 December 2017: 6.59% and 12.75%) while interest rates for foreign currency borrowings are between 0.01% and 6.22% (31 December 2017: 0.01% and 2.25%).

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

18. DEBT SECURITIES ISSUED

	Simple Interest Rate %	Compound Interest Rate %	Maturity Date	2018	2017
TL 21 million discounted bond	23.30	25.51	1 March 2019	20,243	-
TL 10 million discounted bond	25.50	28.23	1 February 2019	9,791	-
TL 22 million discounted bond	13.80	14.30	9 January 2018	-	21,895
TL 19 million discounted bond	14.00	14.53	16 February 2018	-	18,385
TL 11 million discounted bond	14.35	14.96	20 April 2018	-	10,437
TL 10 million discounted bond	23.30	25.51	11 May 2018	-	9,533
Total				**30,034**	**60,250**

19. TAXATION

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rate of tax on 31 December 2018 is 26 % for the Group.

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the "Amendment on Certain Tax Laws and Other Laws" no. 7061, published in Official Gazette on 5 December 2017. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. The corporate tax rate returns are given to depending on tax office until the night of 25th day in the fourth month which is following the close of the accounting period. The tax legislation provides for a temporary tax of 22% (2017: 22%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

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

19. TAXATION (cont'd)

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. This rate was changed to 15% commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

In the accompanying consolidated financial statements corporate tax and deferred tax asset/liability are comprised of the following:

Statement of Financial Position: Corporate tax

	2018	**2017**
Corporate tax liability	1,381	3,620
Prepaid tax	(626)	-
Current Tax Liability	**755**	**3,620**

Income Statement

	2018	**2017**
Current income tax charge	(1,381)	(1,349)
Deferred tax income/(expense)	(1,153)	1,218
Tax expense	**(2,534)**	**(131)**

Reconciliation of income tax expense as follows:

	%	**31 December 2018**	**%**	**31 December 2017**
Profit before tax		**9,394**		**6,696**
Taxes on income per statutory tax rate	(22.00)	(2,067)	(20.00)	(1,339)
Disallowable expenses	(2.85)	(268)	22.76	1,524
Other	(2.12)	(199)	(4.72)	(316)
Tax expense	**(26.97)**	**(2,534)**	**(1.96)**	**(131)**

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

19. TAXATION (cont'd)

Deferred Income Tax

Deferred taxes are attributable to the following items:

	Deferred tax assets		Deferred tax liabilities		Net assets / (liabilities)	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Expected credit losses / Loan loss impairment provision	579	957	-	-	579	957
Employee benefits	1,252	1,088	-	-	1,252	1,088
Property and equipment	-	341	(742)	(11)	(742)	330
Court case provision	-	128	-	-	-	128
Valuation differences on investment securities	471	-	-	186	471	186
Subtotal	**2,302**	**2,514**	**(742)**	**175**	**1,560**	**2,689**
Net off	-	-	-	-	-	-
Total	**2,302**	**2,514**	**(742)**	**175**	**1,560**	**2,689**

The movement of net deferred tax assets can be presented as follows:

	31 December 2018	31 December 2017
Deferred tax assets, net at 1 January	**2,689**	**3,089**
Deferred tax recognized in the profit or loss	(1,153)	1,218
Deferred tax recognized in other comprehensive income	24	(1,618)
Deferred tax assets, net at 31 December	**1,560**	**2,689**

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	31 December 2018	31 December 2017
Provisions for the court cases	2,431	2,253
Provision for severance indemnity	2,193	1,249
Vacation pay liability	392	478
Other short term employee benefits	450	419
Other	744	2,174
Total provisions	**6,210**	**6,573**

Provision for severance indemnity

Under Turkish Labour Law, The Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their severance indemnity provisions who retired by gaining right to receive severance indemnity provisions according to current 506 numbered Social Insurance Law's 6 March 1981 dated. 2422 numbered. 25 August 1999 dated and 4447 numbered with 60th article that has been changed. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002.

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

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS (cont'd)

Provision for severance indemnity (cont'd)

The amount payable consists of one month's salary limited to a maximum of full TL 5,434 (31 December 2017: full TL 4,732) for each period of service at 31 December 2018.

The liability of employee termination benefits is not funded as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 (Employee Benefits) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase accordingly with inflation. Therefore, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 6.00% discount rate of 10.5% and real discount rate of approximately 4.25% (31 December 2017: an annual inflation rate of 6.00% discount rate of 10.5% and real discount rate of approximately 4.25%). Anticipated turnover rate is also included in the calculation.

The movement for the provision for the severance indemnity:

	2018	2017
Balance as at 1 January	**2,253**	**1,954**
Service cost	360	307
Interest cost	359	214
Actuarial gain/(losses)	107	(59)
Gain/(losses) due to payments / discharge	(886)	(163)
Balance as at 31 December	**2,193**	**2,253**

21. OTHER LIABILITIES

	2018	2017
Clearance account	24,528	5,367
Payables to card holders	4,063	3,099
Cash guarantees received	177	127
Unearned income	1,371	991
Other	9,020	32,232
Total	**39,159**	**41,816**

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

22. EQUITY

Share capital:

	2018		2017	
Shareholders	**%**		**%**	
Özyol Holding A.Ş.	58.92	103,118	58.92	103,118
National Bank of Kuwait	34.29	60,000	34.29	60,000
Mehmet Tanju Özyol	5.63	9,861	5.63	9,861
Others	1.16	2,021	1.16	2,021
Nominal Value	**100.00**	**175,000**	**100.00**	**175,000**
Effect of inflation		6,868		6,868
Total		**181,868**		**181,868**

The Bank's paid in capital consists of 17,500,000,000 shares having a unit nominal value of 0.01 (in full TL) (31 December 2017: TL 0.01; 17,5000,000,000 shares). There are no preferred stock as at 31 December 2018 (31 December 2017: None.

Legal reserves:

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

23. NET INTEREST INCOME

	2018	2017
Interest income from		
Loans and advances to customers	158,181	126,038
Loans and advances to banks	14,943	2,317
Financial assets measured at fair value through profit or loss	3,918	
Money market transactions	2,137	793
Trading investments		2,908
Other interest income	3,089	1,267
Total interest income	**182,268**	**133,323**
Interest expense from		
Deposit from customers and banks	(88,209)	(53,020)
Obligations under repurchase agreements and money market funding	(7,820)	(1,366)
Issued debt securities	(4,088)	(7,815)
Other borrowed funds	(452)	(2,547)
Other interest expenses	(14)	(61)
Total interest expenses	**(100,583)**	**(64,809)**
Net interest income	**81,685**	**68,514**

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

24. NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income on:		
Brokerage and custody income	11,129	5,634
General banking income	4,813	6,211
Electronic cards	1,295	1,288
Corporate finance	479	76
Other fees and commissions	22	669
Total fee and commission income	**17,738**	**13,878**
Fee and commission expense on:		
General banking expense	(3,248)	(2,123)
Electronic cards	(1,351)	(600)
Other	253	(572)
Total fee and commission expense	**(4,346)**	**(3,295)**
Net fee and commission income	**13,392**	**10,583**

25. NET TRADING INCOME

	2018	2017
Gains	**3,907,107**	**1,379,277**
Investment securities	1,180	363
Derivatives	105,648	76,998
Foreign exchange	3,800,279	1,301,917
Losses (-)	**3,913,564**	**1,387,684**
Investment securities	-	283
Derivatives	79,175	77,734
Foreign exchange	3,834,389	1,309,668
Total gains and losses, net		
Gains from investment securities, net	1,180	80
Trading (gain) / losses, net	26,473	(736)
Foreign exchange gains and losses, net	(34,110)	(7,751)
Total	**(6,457)**	**(8,407)**

26. OTHER OPERATING INCOME

	2018	2017
Income from the sale of assets	4,516	1,297
Reversal of provision previously recognized	2,968	-
Other	3,199	1,407
Total	**10,683**	**2,704**

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

27. OTHER OPERATING EXPENSES

	2018	2017
Wages and salaries	34,582	31,071
Rent expenses	15,113	12,048
Professional fees and consultancy	4,008	2,856
Depreciation and amortization	4,004	3,971
Communication expenses	3,782	1,655
Taxes other than income	2,744	2,253
Saving deposit insurance fund premium	1,769	993
Repair and maintenance expenses	1,459	222
Retirement benefit costs	267	34
Marketing and sales expenses	230	169
Other	7,508	9,384
Total	**75,466**	**64,656**

28. COMMITMENTS AND CONTINGENCIES

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated financial statements, including letters of guarantee. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

	2018	2017
Letters of guarantee	513,029	485,838
Foreign currency	*105,087*	*138,891*
TL	*407,942*	*346,947*
Letters of credit	2,398	13,409
Derivative financial instruments *(Note 10)*	473,580	767,481
Other commitments	71,341	81,843
Total	**1,060,348**	**1,348,571**

The Bank has extended TL 165 of non-cash loans to related parties (31 December 2017: TL 569).

The Group provides custody service on behalf and account of its customers. The value of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 143,254 at 31 December 2018 (31 December 2017: TL 283,827).

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

29. 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 the financial and operating decisions. The main shareholders of the Group are Özyol Holding and National Bank of Kuwait. For the purpose of these consolidated financial statements, associates, shareholders, Özyol Group companies, and National Bank of Kuwait Group entities are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the course of conducting its business, the Group conducted various business transactions with related parties. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at year-ends and related expense and income for the years are as follows:

	2018	**2017**
Statement of financial position:		
Deposits	**16,829**	**13,105**
Senior Management	9,641	7,206
Ownership	5,108	4,094
Tan Sigorta Aracılık Hiz. A.Ş.	777	101
Türk Bankası LTD.	725	481
Allied Turkish Bank IBU LTD.	448	1,210
Türk Sigorta LTD.	130	13
Other funds borrowed	**18,379**	**21,355**
Allied Turkish Bank IBU LTD.	13,818	15,355
Turk Bankası LTD	1,961	500
Turkish Bank (UK) LTD.	2,600	5,500

	2018	**2017**
Income Statement:		
Interest expense	**1,000**	**389**
Türk Bankası LTD.	621	246
Turkish Bank (UK) LTD.	379	143
Fee and commission income	**15**	**16**
Türk Bankası LTD.	15	16

The remuneration of members of Board of Directors and other members of key management; comprising mainly of salaries and other short-term benefits for the current period is TL 1,719 (31 December 2017: TL 1,586).

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

30. FINANCIAL RISK MANAGEMENT

The Group has a Risk Management Group and is functionally independent of risk creating divisions. The Risk Management Group is responsible for identifying and analysing the exposed risks, carrying risk policies and strategies, setting limits in activities to control these risks and finally measuring these risks. The Executive Committee is the party that submits risk strategies and policies to the Board of Directors.

The Value-at-Risk measurement is used in line with local requirements of the capital adequacy calculation.

Risks emerging in the Group's business and activities are defined as credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk, but all are considered as a whole for management purposes.

Capital management

When managing the capital the Group aims to comply with the capital requirements set by the regulators of the banking market where the Parent Bank operates; to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholders and to maintain a strong capital base to support the development of its business.

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency ("BRSA"). The minimum ratio is 8% (12% if banks operate in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The Group's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, special and preliminary and pre-paid expenses, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk, in accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

The Group's regulatory capital position on a consolidated basis is as follows:

	2018	2017
Tier I capital	201,593	190,546
Tier II capital	2,631	5,808
Deductions	-	-
Total regulatory capital	**204,224**	**196,354**
Amount subject to credit risk	197	261
Amount subject to market risk	196	320
Amount subject to operational risk	10,389	9,457
Capital adequacy ratio (%)	**18.40**	**14.47**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Capital management (cont'd)

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Group by failing to discharge an obligation. Credit exposure arise principally in lending activities that lead to loans and advances and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off balance sheet financial instruments, such as loan commitments.

The Group determines the credit limits and restricts extension of loans and advances exceeding predetermined credit limits. The credit limits are determined for individual customers, companies, group of companies and risk groups separately for each type of product by taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

Counterparty limits are monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored daily.

Group policy requires a review of the level of impairment allowance at least on a quarterly basis. Impairment allowances on individually assessed accounts are determined by evaluation of the exposure on a case by case basis. This will normally include a review of the collateral held and the assessment of actual and anticipated receipts. In addition a portfolio based assessment is also made for homogeneous groups of credit.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of corporate and also guarantees. This system helps make decisions of allocating credit limits and accepted guarantees. The cash loans rated according to the possibility of being in default are classified from the highest grade to the lowest as below:

Basic Loan Quality Categories	**2018**	**2017**
	% In Total Loans	**% In Total Loans**
High grade	18.03	15.97
Standard grade	67.88	78.66
Sub-standard grade	6.79	1.77
Impaired	7.30	3.60
Total	**100.00**	**100.00**

Category "high" shows that the debtor has a strong financial structure, "standard" shows the debtor's financial structure is good enough while "sub-standard" category shows that debtor's financial structure is under risk in the short and medium term.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Credit risk exposure

	Notes	31 December 2018	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		-			
Debt and other instruments		-			
Equity and other non-fixed income instruments		-			
Loans and advances		-			
Non-trading financial assets mandatorily at fair value through profit or loss	**8**	**451**			
Loans and advances	8	*451*			
Debt and other instruments		-			
Equity and other non-fixed income instruments		-			
Equity investments measured at FVOCI		**-**			
Financial assets at fair value through other comprehensive income		**15,264**	**15,264**	**-**	**-**
Debt and other instruments	9	*15,264*	*15,264*	-	-
Equity and other non-fixed income instruments					
Financial assets at amortised cost		**1,235,622**	**1,129,453**	**67,315**	**38,854**
Balances with central banks excluding reserve deposits	5	79,184	79,184	-	-
Loans and advances to banks	6	139,375	139,375	-	-
Loans and advances to customers	11	1,017,063	910,894	67,315	38,854
Debt and other instruments		-	-	-	
Total financial assets risk		**1,251,337**			
Total loan commitments and financial Guarantees		515,427			
Total		**515,427**			

As of 31 December 2017, maximum exposure to credit risk for the components of the financial statements as follows:

	2017
Balances with the Central Bank	87,494
Balances with banks	95,845
Money market placements	15,667
Financial assets at fair value through profit and loss	10,380
Loans and receivables	1,220,490
Financial assets measured at fair value through other comprehensive income	-
Financial assets available for sale	12,376
Total	**1,442,252**
Non cash loans and commitments	525,920
Total	**525,920**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Sectorial concentration of the Group's cash loans are as follows:

	31 December 2018	
Sector		**(%)**
Financial institutions	243,005	25.72
Construction	124,883	13.22
Wholesale and Retail Trade	87,456	9.26
Manufacturing industry	84,052	8.90
Transportation and communication	61,967	6.56
Hotel, Tourism, Food and Beverage Services	60,682	6.42
Mining and quarrying	13,246	1.40
Agriculture	3,345	0.35
Other	266,049	28.17
Performing loans	**944,685**	**100.00**

Non-performing loans		
Total loans and advances to customer	72,378	
Expected credit losses - Stage 1	(941)	
Expected credit losses - Stage 2	(1,458)	
Expected credit losses - Stage 3	(33,441)	
Net loans and advances to customers	**981,223**	

	31 December 2017	
Sector		**(%)**
Financial institutions	303,876	25.24
Construction	171,909	14.28
Wholesale and Retail Trade	147,045	12.21
Manufacturing industry	133,234	11.07
Transportation and communication	69,626	5.78
Hotel, Tourism, Food and Beverage Services	48,916	4.06
Mining and quarrying	14,180	1.18
Agriculture	5,493	0.46
Other	309,682	25.72
Performing loans	**1,203,961**	**100.00**

Non-performing loans		
Total loans and advances to customer	43,302	
Allowance for loan losses	(20,965)	
Portfolio provision for loan losses	(5,808)	
Net loans and advances to customers	**1,220,490**	

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Sectorial concentration of the Group's non-cash loans and commitments are as follows:

	2018		2017	
Sector		**(%)**		**(%)**
Financial institutions	387,949	75.27	293,089	55.71
Manufacturing industry	103,692	20.12	147,732	28.08
Hotel, Tourism, Food and Beverage Services	20,662	4.01	49,229	9.36
Wholesale and Retail Trade	113	0.02	16	-
Construction	-	-	2,480	0.47
Agriculture	-	-	273	0.05
Other	3,011	0.58	33,308	6.33
Total	**515,427**	**100.00**	**526,127**	**100.00**

Credit quality per class of financial assets as of 31 December 2018 and 31 December 2017 are as follows:

2018	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans (*)			
Corporate loans	267,525	101	267,626
Small business lending	495,310	56,250	551,560
Consumer loans	6,201	5,280	11,481
Other	140,917	9,639	150,556
Total	**909,953**	**71,270**	**981,223**

(*) Non performing loans and expected credit losses are included.

2017	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans (*)			
Corporate loans	399,661	5,688	405,349
Small business lending	347,288	39,948	387,236
Consumer loans	5,958	8	5,966
Other	421,286	653	421,939
Total	**1,174,193**	**46,297**	**1,220,490**

(*) Non performing loans, specific allowance for impairment losses and collective allowance for loan losses are included.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Fair value of collaterals for the impaired loans are as follows:

Type of Collaterals	2018	2017
Real-estate mortgage	1,802	6,202
Other	924	402
Total	**2,726**	**6,604**

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflows to fulfil the cash outflows completely on time.

The Bank's Foreign Currency (FC) and total (TL+FC) liquidity coverage ratio (LCR) averages for the last three months, the highest value and the lowest value occurred in this period are given below:

	2018		2017	
	TL+FC (%)	FC (%)	TL+FC (%)	FC (%)
The lowest value	284.33	306.96	176.4	156.9
Applicable week	30.11.2018	23.11.2018	29.12.2017	17.11.2017
The highest value	331.82	401.86	226.6	274.8
Applicable week	02.11.2018	02.11.2018	08.12.2017	15.12.2017

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

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

31 December 2018	Demand	Up to 1 Month	1 to 3 Month	3 to 12 Month	1 to 5 Year	Over 5 Year	Unallocated	Total
ASSETS								
Cash and balances with the Central Bank of Turkey	101,939	-	-	-	-	-	-	101,939
Loans and advances to banks	96,609	42,758	-	-	-	-	-	139,367
Money market placements	-	159,587	15,622	3,530	-	-	-	178,739
Financial assets measured at fair value through profit or loss	-	349	102	-	-	-	-	451
Derivative financial assets	2	1,133	12	-	-	-	-	1,147
Loans and advances to customer	-	251,319	160,236	218,983	284,688	29,432	36,565	981,223
Investment securities	3,452	2,886	599	8,327	-	-	-	15,264
Property and equipment (net)	-	-	-	-	-	-	17,989	17,989
Intangible assets (net)	-	-	-	-	-	-	5,244	5,244
Deferred tax asset (net)	-	-	-	-	-	-	1,560	1,560
Other assets	-	-	-	-	-	-	226,445	226,445
Total Assets	**202,002**	**458,032**	**176,571**	**230,840**	**284,688**	**29,432**	**287,803**	**1,669,368**
LIABILITIES								
Deposits	117,247	858,519	184,815	56,951	6	-	-	1,217,538
Obligations under repurchase agreements and money market funding	-	108,583	15,622	3,530	-	-	6,189	133,924
Funds borrowed	-	18,387	-	8,040	-	-	-	26,427
Derivative financial liabilities	-	2,297	-	-	-	-	-	2,297
Debt securities issued	-	-	30,034	-	-	-	-	30,034
Corporate tax liability	-	-	-	-	-	-	755	755
Other liabilities	-	119	-	-	-	-	258,274	258,393
Total liabilities	**117,247**	**987,905**	**230,471**	**68,521**	**6**	**-**	**265,218**	**1,669,368**
Net liquidity gap	**84,755**	**(529,873)**	**(53,900)**	**162,319**	**284,682**	**29,432**	**22,585**	**-**
As at 31 December 2017								
Total assets	147,498	502,402	121,908	364,511	296,654	-	169,233	1,602,206
Total liabilities	99,121	924,965	232,839	85,992	-	-	259,289	1,602,206
Net liquidity gap	**48,377**	**(422,563)**	**(110,931)**	**278,519**	**296,654**	**-**	**(90,056)**	**-**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

Analysis of financial liabilities by the remaining contractual maturities:

31 December 2018	On Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Adjustments	Total
Obligations under repurchase agreements and money market funding	6,189	100,486	15,622	3,530	-	-	8,097	133,924
Deposits from banks	1,769	80,520	28,504	-	-	-	(245)	110,548
Deposit from customers	115,477	781,036	158,234	58,230	7	-	(5,994)	1,106,990
Other borrowed funds	-	265,397	-	-	-	-	(238,970)	26,427
Issued debt securities	-	21,000	10,000	-	-	-	(966)	30,034
Total	**123,435**	**1,248,439**	**212,360**	**61,760**	**7**	**-**	**(238,078)**	**1,407,923**

31 December 2017	On Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Adjustments	Total
Obligations under repurchase agreements and money market funding	3,656	11,811	-	-	-	-	4,500	19,967
Deposits from banks	24,844	153,847	47,057	-	-	-	(176)	225,572
Deposit from customers	74,276	693,221	168,081	15,478	-	-	(3,676)	947,380
Other borrowed funds	-	41,401	517	50,947	-	-	(762)	92,103
Issued debt securities	-	-	-	-	-	-	60,250	60,250
Total	**102,776**	**900,280**	**215,655**	**66,425**	**-**	**-**	**60,136**	**1,345,272**

Analysis of contractual expiry by maturity of the Group's derivative financial instruments:

31 December 2018	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Total
Options purchase	56,581	-	-	-	-	56,581
Options sale	-	-	-	-	-	-
Currency swap purchase	167,690	-	-	-	-	167,690
Currency swap sale	246,387	-	-	-	-	246,387
Forward exchange rate contracts purchase	2,280	281	-	-	-	2,561
Forward exchange rate contracts sale	98	263	-	-	-	361
Total	**473,036**	**544**	**-**	**-**	**-**	**473,580**

31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Total
Interest rate swap purchase	-	28,578	49,478	-	-	78,056
Interest rate swap sale	-	28,578	49,478	-	-	78,056
Currency swap purchase	279,221	21,736	-	-	-	300,957
Currency swap sale	279,903	22,165	-	-	-	302,068
Forward exchange rate contracts purchase	4,397	3,906	-	-	-	8,303
Forward exchange rate contracts sale	41	-	-	-	-	41
Total	**563,562**	**104,963**	**98,956**	**-**	**-**	**767,481**

30. FINANCIAL RISK MANAGEMENT (cont'd)

Market risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The Group considers currency risk and interest rate risk as the most important constituents of market risk. These are different levels of cut-loss and cut-profit policies to control the risks that may come from the fluctuations in the market.

Other than treasury bill positions, the Group places and borrows funds on a very short term basis, mostly on overnight, keeping the market risk of these transactions at minimum level. Thus, the Group acts quickly to any unexpected fluctuation in the market.

Interest rate risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest-sensitive assets and liabilities. In Turkey, the interest rates are highly volatile and this may result in significant changes in the prices of financial instruments such as government bonds and treasury bills. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

In case of any transactions that are exposed to interest rate risk, cut-loss policies are in place to control this risk. Interest rate risk is controlled and analysed by duration analysis. Furthermore, various simulation techniques are employed in order to analyse the effects of market volatilities on the Group's balance sheet.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the end of the reporting period to the repricing date.

31 December 2018	Up to 1 Month	1 to 3 Month	3 to 12 Month	Over 1 Year	Non-interest bearing	Total
ASSETS						
Cash and balances with the Central Bank of Turkey	-	76,044	-	-	25,895	101,939
Balances with banks	42,758	-	-	-	96,609	139,367
Interbank money market placements	159,587	15,622	3,530	-	-	178,739
Financial assets at fair value through profit or loss (net)	349	102	-	-	-	451
Derivative financial asset	1,133	12	-	-	2	1,147
Loans and advances to customer	625,063	83,072	130,888	105,635	36,565	981,223
Investment securities (net)	4,361	600	6,851	-	3,452	15,264
Property and equipment (net)	-	-	-	-	17,989	17,989
Intangible assets (net)	-	-	-	-	5,244	5,244
Deferred tax asset (net)	-	-	-	-	1,560	1,560
Other assets	-	2,442	-	-	224,003	226,445
Total Assets	**833,251**	**177,894**	**141,269**	**105,635**	**411,319**	**1,669,368**
LIABILITIES						
Deposits	858,519	184,815	56,951	6	117,247	1,217,538
Obligations under repurchase agreements and money market funding	108,583	15,622	3,530	-	6,189	133,924
Other borrowed funds	18,387	-	8,040	-	-	26,427
Derivative financial liabilities	2,297	-	-	-	-	2,297
Issued debt Securities	-	30,034	-	-	-	30,034
Other liabilities	119	-	-	-	259,029	259,148
Total liabilities	**987,905**	**230,471**	**68,521**	**6**	**382,465**	**1,669,368**
Net interest sensitivity gap	**(154,654)**	**(52,577)**	**72,748**	**105,629**	**28,854**	**-**
As at 31 December 2017						
Total assets	878,209	187,128	122,912	179,053	234,904	1,602,206
Total liabilities	925,150	232,915	85,730	-	358,411	1,602,206
Net interest sensitivity gap	**(46,941)**	**(45,787)**	**37,182**	**179,053**	**(123,507)**	**-**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

As at 31 December 2018 and 31 December 2017, summary of average interest rates for different assets and liabilities are as follows:

	31 December 2018			31 December 2017		
	EURO %	USD %	TL %	EURO %	USD %	TL %
Assets						
Cash and balances with the Central Bank of Turkey	-	-	0.09	-	-	0.04
Loans and advances to banks	0.10	4.36	24.21	0.28	1.40	-
Financial assets measured at fair value through other comprehensive income	-	-	19.24	-	-	-
Available for sale Assets	-	-	-	-	-	10.82
Loans and advances to customer	5.69	8.05	25.77	5.11	6.64	16.58
Liabilities						
Deposits from banks	1.62	0.20	21.78	0.51	2.54	13.39
Deposits from customers	2.33	3.82	22.29	2.06	3.44	11.20
Other Borrowed funds	0.95	3.96	22.81	1.66	1.60	11.95

Interest Rate Sensitivity:

The Group ensures that the risk remains within the predefined limits although the Group is exposed to structural interest rate risk on the statement of financial position due to the nature of its existing activities.

The Bank applies interest sensitivity scenarios with the changes in the interest rate and interest margins, to calculate the impact on the income statement and the shareholder's equity.

		31 December 2018		31 December 2017	
Type of currency	**Shocks Applied (+ / - basis point)**	**Gains/ Losses**	**Gains/ Equity-Losses/ Equity**	**Gains/ Losses**	**Gains/ Equity-Losses/ Equity**
TL	(+) 500	(1,375)	(0.68%)	(3,032)	(1.6%)
TL	(-) 400	1,256	0.62%	2,806	1.4%
USD	(+) 200	(2,721)	(1.35%)	(3,846)	(2.0%)
USD	(-) 200	2,927	1.45%	4,199	2.2%
EUR	(+) 200	(170)	(0.08%)	(1,591)	(0.8%)
EUR	(-) 200	180	0.09%	1,683	0.9%
Total (for negative shocks)		**4,363**	**2.16%**	**8,688**	**4.5%**
Total (for positive shocks)		**(4,266)**	**(2.11%)**	**(8,469)**	**(4.4%)**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk

Foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. Long and short exposures are hedged on a portfolio basis with derivative financial instruments that include primarily forward foreign exchange contracts and currency swaps. Currency risk is also controlled through keeping a short position within local requirements.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The tables below summarize the Group's exposures to foreign currency exchange rate risk at 31 December 2018 and 31 December 2017. Included in the table are the Group's assets and liabilities and equity at carrying amounts, categorized by currency.

Foreign currency position of the Group is as follows:

31 December 2018	EURO	USD	Other Foreign Currencies	Total
ASSETS				
Cash and balances with the Central Bank of Turkey	59,971	118,320	21,756	200,047
Loans and advances to banks	42,085	79,540	4,882	126,507
Financial assets measured at fair value through other comprehensive income	1,934	-	-	1,934
Loans and advances to customer	190,043	244,692	3,560	438,295
Other assets	48,943	33,717	-	82,660
Total	**342,976**	**476,269**	**30,198**	**849,443**
LIABILITIES				
Deposits	255,143	487,782	85,760	828,685
Other borrowed funds	8,118	3,067	2,794	13,979
Other liabilities	1,489	1,827	1,365	4,681
Total	**264,750**	**492,676**	**89,919**	**847,345**
Net balance sheet position	**78,226**	**(16,407)**	**(59,721)**	**2,098**
Off-balance sheet position				
Net notional amount of derivatives	**(79,611)**	**102,138**	**(28,050)**	**(5,523)**
As at 31 December 2017				
Total assets	411,511	285,014	22,209	718,734
Total liabilities	412,942	387,340	83,222	883,504
Net balance sheet position	**(1,431)**	**(102,326)**	**(61,013)**	**(164,770)**
Off-balance sheet position				
Net notional amount of derivatives	**(29)**	**96,412**	**43,878**	**140,261**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

Foreign Currency Sensitivity:

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. A positive number indicates an increase USD and EUR in profit or loss and other equity where the TL strengthens against USD, EUR and GBP.

	Change in currency rate in %		Effect on profit or loss		Effect on equity (*)	
			31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
USD	10	Increase	8,573	(591)	-	-
USD	10	Decrease	(8,573)	591	-	-
EUR	10	Increase	(139)	(146)	-	-
EUR	10	Decrease	139	146	-	-

(*) P/L impact not included.

The Group's sensitivity to foreign currency rates has not changed much during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, increasing the skills of the staff, improving job technology and job definitions, establishing the necessary internal controls and various insurances are employed as the main methods. The internal control and audit mechanism contributes greatly to the management of operational risk.

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No, 28337 dated 28 June 2012, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2013, 2014 and 2015, as of 31 December 2016. The total amount subject to operational risk is calculated as TL 129,862 (31 December 2017: TL 118,211) and the amount of the related capital requirement is TL 10,389 (31 December 2017: TL 9,457).

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments

As at 31 December 2018 and 31 December 2017, fair values of financial assets and liabilities are as follows:

	Carrying value	Fair value
	31 December 2018	**31 December 2018**
Financial Assets		
Financial assets at fair value through profit or loss		
- Financial assets measured at fair value through profit or loss	451	451
- Derivative financial assets	1,147	1,147
Financial assets measured at fair value through other comprehensive income	15,264	15,264
Loans(*)	981,223	953,765
Total	**998,085**	**970,627**
Financial Liabilities		
Deposits from banks	110,548	108,202
Deposit from customers	1,106,990	1,103,754
Other borrowed funds	26,427	20,942
Derivative financial liabilities	2,297	1,563
Issued debt securities	30,034	5,642
Total	**1,276,296**	**1,240,103**

	Carrying value	Fair Value
	31 December 2017	**31 December 2017**
Financial Assets		
Financial assets at fair value through profit or loss		
- Trading securities	11,219	11,219
- Derivative financial instruments	1,157	1,157
Available-for-sale financial assets	10,380	10,380
Loans (*)	1,220,490	1,192,327
Total	**1,243,246**	**1,215,083**
Financial Liabilities		
Deposits from banks	225,572	224,914
Deposit from customers	947,380	946,126
Other borrowed funds	92,103	72,453
Derivative financial instruments	1,301	1,301
Issued debt securities	60,250	3,984
Total	**1,326,606**	**1,248,778**

The fair value of financial assets measured at fair value through other comprehensive income is based on market prices. Where market prices are not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments (cont'd)

The fair value of deposits with no stated maturity, floating rate placements and overnight deposits is their carrying amount. The estimated fair value of bank deposits and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortised cost are considered to approximate their respective carrying values due to their short-term nature.

Fair value hierarchy

The fair value hierarchy consists of three levels, depending upon whether fair values are determined based on quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have significant impact on the fair value of the instrument (Level 3):

The Group measures fair values using the following hierarchy of method:

- **Level 1:** This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market. These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Bank's portfolio.
- **Level 2:** This category includes inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which 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 uses inputs based on unobservable data, which could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant, unobservable adjustments or assumptions are required to reflect differences between instruments. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived.

	Level 1		**Level 2**		**Level 3**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Financial Assets						
Financial assets at fair value through profit or loss	-	11,219	451	-	-	-
Financial assets measured at fair value through other comprehensive income	13,747	-	-		-	
Derivative financial assets	-	-	1,147	1,157	-	-
Available-for-sale financial assets		8,863	1,517	-	-	-
Total	**13,747**	**20,082**	**3,115**	**1,157**	**-**	**-**
Financial Liabilities	-					
Derivative financial liabilities	-	-	2,297	1,301	-	-
Total	**-**	**-**	**2,297**	**1,301**	**-**	**-**

No securities were transferred from Level 1 to Level 2 of the fair value hierarchy in 2017.

31. EVENTS AFTER THE REPORTING PERIOD

As of 31 January 2019, Turkish Bank A.Ş. Board Member George Richani has resigned and Mehmet Barış Darendeli has been appointed as Board Member.

Financing bonds issued to qualified investors in Turkish Lira, with a maturity of 74 days and a nominal value of TL 10,000,000 (full TL) ,in the nominal issue ceiling of TL 150,000,000 (full TL) , redeemed on 1 February 2019.

On 4 February 2019, in the nominal issue ceiling of TL 150,000,000 (full TL), financing bonds were issued to qualified investors in Turkish Lira, with a maturity of 60 days and a nominal value of TL 13,000,000 (full TL).

Financing bonds issued to qualified investors in Turkish Lira, with a maturity of 81 days and a nominal value of TL 21,000,000 (full TL) , in the nominal issue ceiling of TL 150,000,000 (full TL), redeemed on 1 March 2019.

On 13 March 2019, in the nominal issue ceiling of TL 150,000,000 (full TL), financing bonds were issued to qualified investors in Turkish Lira, with a maturity of 58 days and a nominal value of TL 22,000,000 (full TL).

Financing bonds issued to qualified investors in Turkish Lira, with a maturity of 60 days and a nominal value of TL 13,000,000 (full TL) , in the nominal issue ceiling of TL 150,000,000 (full TL), redeemed on 5 April 2019.

On 12 April 2019, in the nominal issue ceiling of TL 150,000,000 (full TL), financing bonds were issued to qualified investors in Turkish Lira, with a maturity of 86 days and a nominal value of TL 14,000,000 (full TL) Thousands.