Alternatifbank Anonim Şirketi
and Its Subsidiaries

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

KPMG Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik Anonim Şirketi

15 May 2019

This report contains 5 pages of independent auditors' report on consolidated financial statements and 75 pages of consolidated financial statements and notes to the consolidated financial statements.

<u>Alternatifbank Anonim Şirketi and Its Subsidiaries</u>

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INDEPENDENT AUDITORS' REPORT

To the General Assembly of Alternatifbank Anonim Şirketi:

Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Standard Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Impairment of loans measured at amortised cost

The details of accounting policies and significant estimates and assumptions for impairment of loans measured at amortised cost are presented Note 2.11 to the consolidated financial statements.

Key audit matter	*How the matter is addressed in our audit*
As of 31 December 2018, loans measured at amortised cost comprise 67% of the Group's total assets. The Group recognizes its loans measured at amortised cost in accordance with IFRS 9 Financial Instruments Standard ("Standard") As of 1 January 2018, due to the adoption of the Standard, in determining the impairment of loans it has begun 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; and ✓ 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 loans classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions. The collective basis provisions are modelled by using current and past data sets and expectations and the forward looking information is included. Impairment on loans 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.	Our procedures for testing the expected credit loss included 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 information risk management specialists • The contractual cash flow tests prepared for the financial assets of the Group were examined and the results of the tests were checked for compliance with the loan agreements. The conformity of the subjective and objective criteria defined in the Group's impairment model has been checked for compliance 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 specialist. • We performed loan reviews for selected loan samples which include a 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. • We evaluated the adequacy of the expected credit loss calculations by selecting sample for the loans and leasing receivables which are assessed on individual basis. • 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 has been tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters were 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 assessments 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.

Classification and measurement of financial assets

The details of accounting policies and significant judgements of classification and measurement of financial instruments are presented in Note 2.10.

Key audit matter	*How the matter is addressed in our audit*
Financial assets measured at amortised cost comprise 13% of the Group's total asset. Group has started to apply IFRS 9 Financial Instruments standard ("Standard") which also includes the classification and measurement principles of financial instruments. The classification of the financial assets is based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9. The Group uses significant judgements on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments. In accordance with IFRS 9, the Group has been classified government debt securities and other financial assets, as financial assets measured at amortized cost within the framework of the business model which was previously classified as financial assets at fair value through profit or loss. The business model which based on the classification of financial instruments determined as key audit matter considering high degree of management judgements.	Our audit procedures for testing included below: • We assessed the policy of the classification and measurement of financial instruments based on the Standard and compared with the requirements of the standard. • The Group's business model assessment has been obtained and reviewed. Only the criteria used to determine the contracts that lead to contractual cash flows that include interest payments on principal and principal balances (SPPI criteria) have been tested. • We also evaluated whether the important judgments of the Group for the classification of the related assets as financial assets measured with amortized cost are reasonable. • We also evaluated the adequacy of consolidated financial statements' disclosures related to the classification and measurement of financial assets.

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

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

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

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

Auditors' Responsibilities for the audit of the Consolidated Financial Statements

Responsibilities of auditors 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 A.Ş.
A member firm of KPMG International Cooperative

Funda Aslanoğlu
Partner

15 May 2019
Istanbul, Turkey

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated).

	Notes	**Audited 31 December 2018**	**Restated Audited 31 December 2017 (*)**
ASSETS			
Cash and balances with the Central Bank of Turkey	6	2,212,051	2,287,411
Financial assets at fair value through profit or loss ("FVTPL")	8	42,048	6,394
Derivative financial assets	9	194,612	90,819
Loans and advances to banks	7	1,435,480	701,556
Loans and advances to customers	10	17,228,092	14,465,280
Investment securities	11	3,434,768	2,530,606
Intangible assets	12	100,880	92,411
Property and equipment	13	283,361	38,511
Deferred tax assets	19	172,895	74,561
Other assets	14	616,863	384,145
Total assets		**25,721,050**	**20,671,694**
LIABILITIES			
Trading liabilities	9	174,120	166,990
Derivative financial liabilities held for risk management	9	4,023	-
Deposits from banks	15	838,850	1,140,158
Deposits from customers	16	13,465,429	10,726,888
Loans and advances from banks and other institutions	17	4,870,527	4,019,045
Debt securities issued	18	1,896,633	1,197,506
Subordinated liabilities	17	1,863,654	1,330,146
Provisions	20	92,132	60,628
Retirement benefit obligations	21	8,705	8,550
Other liabilities	22	803,549	388,449
Total liabilities		**24,017,622**	**19,038,360**
EQUITY			
Share capital	23	1,167,000	980,000
Share premium	23	54	54
Fair value reserves	24	(52,783)	(108,651)
Hedge reserves	24	(3,884)	-
Revaluation surplus	24	27,782	-
Other reserves	24	289,095	264,195
Legal reserves	24	34,143	30,102
Retained earnings	24	242,005	467,619
Equity attributable to owners of the Bank		**1,703,412**	**1,633,319**
Non-controlling interests		16	15
Total Equity		**1,703,428**	**1,633,334**
Total liabilities and Equity		**25,721,050**	**20,671,694**

(*) See Note 2.27.

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

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

	Note	Audited 31 December 2018	Restated Audited 31 December 2017 (*)
Interest income	25	2,409,807	1,463,179
Interest expense	25	(1,867,567)	(944,201)
Net interest income	25	**542,240**	**518,978**
Fee and commission income	26	96,396	74,546
Fee and commission expense	26	(28,439)	(21,308)
Net fee and commission income	26	**67,957**	**53,238**
Foreign exchange gains and losses, net		175,022	(21,621)
Trading gains and losses, net	27	(24,209)	(10,435)
Gains/losses from investment securities, net		(16,683)	(9,800)
Other operating income		-	3,801
Operating income		**744,327**	**534,161**
Impairment losses on loans and credit related commitments, net	10	(161,770)	(174,990)
Other operating expenses	28	(343,869)	(286,198)
Operating expense		**(505,639)**	**(461,188)**
Profit before income tax		**238,688**	**72,973**
Tax expense	19	(33,790)	(5,133)
Profit for the year		**204,898**	**67,840**
Profit attributable to:			
Equity holders of the Bank		204,897	67,838
Non-controlling interest		1	2
		204,898	**67,840**
Earnings per share Basic earnings per share attributable to the equity holders of the Bank (expressed in TL per thousand share)	2.29	0.1774	0.0692

(*) See Note 2.27.

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

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

	Note	Audited 1 January 2018- 31 December 2018	Audited 1 January 2017- 31 December 2017
Profit for the year		**204,898**	**67,840**
Items that will not be reclassified to profit or loss		**28,657**	**(685)**
Remeasurements of defined benefit liability	21	1,094	(856)
Property Revaluation Differences	13	27,782	-
Related tax		(219)	171
Items that are or may be reclassified subsequently to profit or loss:		**6,585**	**56,516**
Changes in the fair value of debt instruments at fair value through OCI		23,672	-
Net change in fair value of available for sale financial assets		-	87,784
Gain/(Loss) from cash flow hedges		(3,884)	-
Related tax		(13,203)	(31,268)
Other comprehensive income, net of tax		**35,242**	**55,831**
Total comprehensive income		**240,140**	**123,671**
Total comprehensive income attributable to			
Equity holders of the Bank		240,139	123,669
Non-controlling interests		1	2
Total comprehensive income		**240,140**	**123,671**

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

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

		Attributable to equity holders of the Bank										
					Items that will not be reclassified to profit or loss	Items that are or may be reclassified subsequently to profit or loss						
	Note	**Share Capital**	**Share Premium**	**Legal Reserves**	**Revaluation Surplus**	**Hedge Reserves**	**Fair Value Reserves**	**Other Reserves**	**Retained Earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance at 1 January 2017		**980,000**	**54**	**28,974**	**-**	**-**	**(165,167)**	**-**	**413,514**	**1,257,375**	**13**	**1,257,388**
Total comprehensive income for the year												
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**49,140**	**49,140**	**2**	**49,142**
Other comprehensive income												
Net change in fair value of available for sale investments, net of tax		-	-	-	-	-	56,516	-	-	56,516	-	56,516
Remeasurements of defined benefit liability		-	-	-	-	-	-	-	(685)	(685)	-	(685)
Total other comprehensive income		**-**	**-**	**-**	**-**	**-**	**56,516**	**-**	**(685)**	**55,831**	**-**	**55,831**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**56,516**	**-**	**48,455**	**104,971**	**2**	**104,973**
Contributions by and distributions to owners												
Transfer to legal reserves		-	-	1,128	-	-	-	-	(1,128)	-	-	-
Other		-	-	-	-	-	-	270,973	-	270,973	-	270,973
Balance at 31 December 2017	**24**	**980,000**	**54**	**30,102**	**-**	**-**	**(108,651)**	**270,973**	**460,841**	**1,633,319**	**15**	**1,633,334**
Balance at 1 January 2018		**980,000**	**54**	**30,102**	**-**	**-**	**(108,651)**	**270,973**	**460,841**	**1,633,319**	**15**	**1,633,334**
Impact of adopting IFRS 9 at 1 January 2018	2.26	-	-	-	-	-	45,399	-	(398,329)	**(352,930)**	-	**(352,930)**
Corrections Made According to IAS 8	2.27	-	-	-	-	-	-	(6,778)	6,778	**-**	**-**	**-**
Restated balances at 1 January 2018		**980,000**	**54**	**30,102**	**-**	**-**	**(63,252)**	**264,195**	**69,290**	**1,280,389**	**15**	**1,280,404**
Total comprehensive income for the year												
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**204,897**	**204,897**	**1**	**204,898**
Other comprehensive income												
Net change in fair value of debt instruments measured at FVOCI		-	-	-	-	-	10,469	-	-	10,469	-	10,469
Cash flow hedges		-	-	-	-	(3,884)	-	-	-	(3,884)	-	(3,884)
Net change on revaluation surplus		-	-	-	27,782	-	-	-	-	27,782	-	27,782
Remeasurements gain/loss on defined benefit liability		-	-	-			-	-	875	875	-	875
Total other comprehensive income		**-**	**-**	**-**	**27,782**	**(3,884)**	**10,469**	**-**	**875**	**35,242**	**-**	**35,242**
Total comprehensive income for the year		**-**	**-**	**-**	**27,782**	**(3,884)**	**10,469**	**-**	**205,772**	**240,139**	**1**	**240,140**
Contributions by and distributions to owners												
Transfer to legal reserves		-	-	4,041	-	-	-	-	(4,041)	-	-	-
Capital Increase	23	187,000	-	-	-	-	-	-	-	187,000	-	187,000
Other		-	-	-	-	-	-	24,900	(29,016)	(4,116)	-	(4,116)
Balance at 31 December 2018	**24**	**1,167,000**	**54**	**34,143**	**27,782**	**(3,884)**	**(52,783)**	**289,095**	**242,005**	**1,703,412**	**16**	**1,703,428**

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

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

	Note	Audited 1 January 2018- 31 December 2018	Audited 1 January 2017- 31 December 2017
Cash flows from operating activities			
Interest received		2,288,243	1,364,726
Interest paid		(1,794,437)	(935,723)
Fees and commissions received		94,255	74,540
Trading income		150,813	(102,819)
Recoveries of loans previously impaired		175,229	133,923
Fees and commissions paid		(28,439)	(21,308)
Cash payments to employees and other parties		(169,580)	(145,059)
Cash received from other operating activities		291,473	(247,364)
Cash paid for other operating activities		(2,111,651)	34,972
Taxes paid		(58,726)	(32,258)
Cash flows from operating profits before changes in operating assets and liabilities		**(1,162,820)**	**123,630**
Changes in operating assets and liabilities:			
Trading securities		(18,885)	(3,336)
Loans and advances		(1,871,882)	(2,536,931)
Other assets		446,520	(51,808)
Deposits from other banks		(364,177)	(158,153)
Deposits		2,657,288	2,583,921
Other money market deposits		62,380	98,733
Other liabilities		584,499	72,215
Net cash from operating activities		**332,923**	**128,271**
Cash flows from investing activities			
Purchases of securities through OCI		-	(1,559,831)
Proceeds from sale and redemption of investment securities through OCI		-	1,493,478
Purchases of investment securities at AC		-	-
Redemption of investment securities at AC		-	-
Purchases of premises and equipment		(245,165)	(21,238)
Proceeds from sale property and equipment		10,077	4,983
Purchase of intangible assets, net		(8,469)	(6,204)
Net cash used in investing activities		**(243,557)**	**(88,812)**
Cash flows from financing activities			
Proceeds from funds borrowed	17	2,905,463	2,484,014
Payments for funds borrowed	17	(2,349,197)	(2,474,320)
Proceeds from bond issue		1,465,445	235,715
Payments for bonds issued		(235,715)	(146,523)
Share capital increase	23	187,000	-
Net cash from financing activities		**1,972,996**	**98,886**
Net increase in cash and cash equivalents		**2,062,362**	**138,345**
Effects of foreign exchange-rate changes on cash and cash equivalents		(670,738)	(183,256)
Cash and cash equivalents at beginning of the year	**5**	**1,473,106**	**1,518,017**
Cash and cash equivalents at end of the year	**5**	**2,864,730**	**1,473,106**

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

NOTE 1 - GENERAL INFORMATION

Alternatifbank A.Ş. (a Turkish joint stock company - "the Bank") was incorporated in Istanbul on 6 November 1991 and started operations in February 1992. Bank's shares are traded on the Istanbul Stock Exchange since 3 July 1995.

The sale of the shares of the Bank belonging to Anadolu Group companies to The Commercial Bank (P.S.Q.C.) has been finalised on 18 July 2013 and the share transfer has been registered in accordance with the Board of Directors meeting at the same date.

The Bank made an application to Capital Market Boards of Turkey (CMB) and Borsa İstanbul A.Ş. about to delisting from the stock-exchange quotation in accordance with clauses of Capital Market Board "Squeeze-out and Sell-out Rights Communiqué" on 11 July 2014. "Capital Issue Document" prepared for the capital increase allocated to controlling shareholder The Commercial Bank (P.S.Q.C.) in the context of the process of squeeze-out and sell-out rights from the minority in accordance with "Squeeze-out and Sell-out Rights Communiqué" has been approved by CMB on 23 July 2015. Since that date, Alternatifbank A.Ş.'s shares are not quoted to stock exchange.

As of 31 December 2018, the shareholder structure of the Bank is as follows:

	31 December 2018		31 December 2017	
Name of Shareholders	**Paid in capital**	**%**	**Paid in capital**	**%**
The Commercial Bank (P.S.Q.C.)	1,167,000	100	980,000	100
Total	**1,167,000**	**100**	**980,000**	**100**

The registered office address of the Bank is at Ayazağa Mah. Cendere Cad. No: 109M 2D Blok 34485 Sarıyer/İstanbul

The consolidated financial statements of the Group were authorized for issue by the Board of Directors on 15 May 2019. The General Assembly has the power to amend the consolidated financial statements after its issue.

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

The operations of the Group consist of banking, leasing and portfolio management conducted mainly with local customers.

The Bank provides banking services through 49 branches (31 December 2017: 53) in Turkey. At 31 December 2018, the Group has 1,021 employees (31 December 2017: 1,017).

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

NOTE 1 - GENERAL INFORMATION (Continued)

The subsidiaries and the Bank's shareholding interest as at 31 December 2018 and 31 December 2017 are as follows:

	Place of Incorporation	Effective shareholding (%) 31 December 2018	Effective shareholding (%) 31 December 2017
Alternatif Menkul Değerler A.Ş.	Istanbul/Turkey	100.00	100.00
Alternatif Finansal Kiralama A.Ş.	Istanbul/Turkey	99.99	99.99

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation of Financial Statements

The Bank and its subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), regulations promulgated by the Capital Markets Board of Turkey and also the Turkish Commercial Code.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit and loss, investment securities at fair value through other comprehensive income and derivative financial instruments that have been measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

In preparation of the financial statements of the Group, the same accounting policies applied with the accounting policies applied to the comparative periods, except for the IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which became effective beginning from 1 January 2018. Changes in accounting policies for these new standards are presented in the current accounting policies. IFRS 15 did not have significant impact on the accounting policies, financial position and performance of the Group. IFRS 9 transition disclosure are presented in Note 2.26.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Consolidation

These consolidated financial statements are presented in Turkish Lira (“TL”), which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries, as of 31 December 2018 and 31 December 2017.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The Bank also consolidates a subsidiary in which it has less than 50% shareholding since it has power to govern the financial and operating policies of such subsidiary under a statute, to appoint or remove the majority of the members of the board of directors and to cast the majority of votes at the meetings of board of directors.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

The equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position and statement of profit or loss, respectively.

All intra-group balances, transactions and unrealized gains on intra-group transactions are eliminated including inter-company profits and unrealized profits and losses. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2.3 Use of Estimates and Judgments

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in related accounting policies (Note 3).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Functional and Presentation Currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”).

The consolidated financial statements are presented in Turkish Lira (“TL”), which is the Group’s functional and the presentation currency.

2.5 Foreign Currency Transactions and Translation

Transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.

2.6 Due from Banks

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

2.7 Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Furniture and fixtures and motor vehicles	3 years to 15 years
Office equipment	5 years
Leasehold improvements	5 years, or over the period of the lease if less than 5 years
Buildings	50 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset’s fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to premises and equipment.

An item of premises and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

The Group started to recognize head-office building under the property and equipment with its revalued amount instead of cost value in accordance with “IAS 16 - Property, Plant and Equipment” as at 31 December 2018. The revaluation difference arising from the valuation made by the appraisal firms authorized by CMB and BRSA is recognized in “Revaluation Surplus” line under the Shareholders’ Equity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Goodwill

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. The Group has TL 49,017 goodwill. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in the income statement as a bargain purchase gain. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units.

2.9 Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Patents and licenses were amortized over their useful economic lives of 15 years. Software and development costs for software were amortized over their useful economic lives of 3 years.

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

2.10 Financial Assets

The Group categorizes its financial assets as "Fair Value through Profit/Loss", "Fair Value through Other Comprehensive Income" or "Measured at Amortized Cost". Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Group recognizes a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank's management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments are made to earnings, losses or interests that were previously recorded in the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit/loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and re-measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Financial Assets at Fair Value through Other Comprehensive Income

A financial asset is measured at fair value through other comprehensive income when both of the following conditions are provided:

- Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell,

- Financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates.

Valuation of such assets is based on its fair value. "Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income reflected and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity. In case of sales, the realized gain/losses are recognized directly in the income statement.

During initial recognition an entity may irrevocably elect to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income.

Financial Assets Measured at Amortized Cost

A financial asset is measured at amortized cost when both of the following conditions are provided:

- Financial assets within a business model that aims to hold to collect contractual cash flows,

- Financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using "Effective Interest Rate Method". Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Derivative Financial Assets

The Group uses derivative financial instruments to hedge its foreign currency and interest rate risk.

The major derivative instruments utilized by the Group are foreign currency swaps, interest rate swaps, currency forwards, currency futures and currency options.

Derivatives are initially recorded with their fair values and related transaction costs as of the contract date are recorded on gain or loss. The following periods of initial reporting, they are measured with their fair values. The result of this assessment, offsetting debit and credits stemming from each contract debit and credits are reflected to the financial statements as a contract-based single asset and liability. The recognition method of profit/loss is based on whether the related derivative is hedged or not, and the content of the hedged instrument.

The Group notifies in written the relationship between hedging instrument and related account, risk management aims of hedge and strategies and the methods using to measure of the hedge effectiveness. The Group evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in "Trading Gains/Losses on derivative financial instruments" account. In the balance sheet, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. In case of inferring hedge accounting, corrections made to the value of hedge account using straight-line amortization method within the days to maturity are reflected to "Trading gains/losses on derivative financial instruments" account in income statement.

Derivative financial instruments of the Group are classified under "IFRS 9 Financial Instruments" ("IFRS 9"), "Derivative Financial Assets Designated at Fair Value through Profit or Loss" or "Derivative Financial Assets Designated at Fair Value through Other Comprehensive Income". In accounting policy choice, IFRS 9 provides the option of postponing the acceptance of IFRS 9 hedge accounting and continuing with IAS 39 "Hedge accounting". In this context, the Group continued to apply IAS 39 "Hedge accounting".

The notional amounts of derivative transactions are recorded in off-balance sheet accounts based on their contractual amounts. "Financial instruments at fair value through profit or loss" are measured at fair value. If the fair value of derivative financial instruments is positive, it is disclosed under the main account "financial assets at fair value through profit or loss" in "derivative financial assets held for trading" and if the fair value difference is negative, it is disclosed under "derivative financial liabilities held for trading". Fair value changes are recorded under "Derivative Financial Transactions Gains/(Losses)" in the income statement. The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not itself carried at fair value through profit or loss;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%.

a. Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Derivatives held for risk management purposes and hedge accounting (Continued)

a. Fair value hedge (continued)

The Bank uses “Fair Value Hedge Accounting” from the beginning of 24 March 2014.

Derivative financial instruments is used as hedging instruments are interest swap transactions.

	31 December 2018		
	Principal (*)	**Asset**	**Liability**
Derivative Financial Instruments			
Interest Swap Transactions	110,000	1,485	-
Total	**110,000**	**1,485**	-

(*) Reflects sum of purchase and sale legs of the transactions.

Starting from 24 March 2014, the Bank has hedged the fair value effects of changes in libor interest rates, fixed interest rate loan amounting TL 7,945 with maturity 5 years funding by using interest rate swap. The nominal value of interest rate swap is TL 55,000 with maturity 5 years respectively.

As of 24 March 2017, the difference of TL 77 resulting from the changes in the fair values of the loans that are subject to fair value hedge accounting will be amortized until 24 March 2019.

Hedging Instrument	**Hedged item (assets and liabilities)**	**Hedged risks**	**Fair value difference/ adjustment of the hedged item**	**Net fair value of hedging instrument**	
				Asset	**Liability**
Interest swap transactions	Fixed rate equal installments paid commercial installment loans	Fixed interest rate risk	(1,125)	6,709	-

b. Cash flow hedge

The Parent Bank applies cash flow hedge accounting using interest rate swaps to hedge its TL deposits with short term cyclical basis. The Parent Bank implements effectiveness tests at the balance sheet dates for hedge accounting; the effective parts are accounted as defined in IAS 39, in financial statements under equity “Hedging reserves”, whereas the amount concerning ineffective part is associated with income statement.

As of 31 December 2018, derivative financial instruments designated as hedging instruments are interest rate swaps. Those derivative financial instruments are summarized in the following table:

Starting Date	**Due Date**	**Currency**	**Principal Amount**
20 November 2018	27 May 2020	TL	100,000
7 November 2018	11 May 2020	TL	50,000
7 November 2018	11 May 2020	TL	50,000
7 November 2018	11 June 2020	TL	100,000

	31 December 2018		
	Principal Amount (*)	**Assets**	**Liabilities**
Derivative financial instruments			
Interest rate swaps	600,000	-	4,023
Total	**600,000**	**-**	**4,023**

(*) Reflects sum of purchase and sale legs of the transactions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Derivatives held for risk management purposes and hedge accounting (Continued)

b. Cash flow hedge (continued)

In cash flow hedge accounting, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked; the hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged items are realized.

The Group does not have any net investment hedges.

Loans

Loans are financial assets which are created by providing money, goods or services to the debtor. Loans are recognized at acquisition cost which is reflecting the fair value after that measured at amortized cost using the effective interest rate method. Any fees and other similar charges paid for assets received as collateral are not considered as part of the transaction cost and reflected in the expense accounts.

Cash loans in personal and corporate loans, according to the Uniform Chart of Accounts ("UCA") and Prospectus are recognized in accordance with their original balances in the account specified.

The foreign exchange indexed commercial and individual loans are being monitored by the exchange rate of the opening date over Turkish Lira in the TL accounts. Repayments are calculated at the exchange rate at the date of payment, the resulting exchange differences are recognized in the income and expense account.

Starting from 24 March 2014, the Parent Bank has hedged the fair value effects of changes in libor interest rates, fixed interest rate loan amounting TL 7,945 with maturity 5 years funding by using interest rate swap. The nominal value of interest rate swap is TL 55,000 with maturity 5 years respectively.

As of 24 March 2017, the difference of TL 77 resulting from the changes in the fair values of the loans that are subject to fair value hedge accounting will be amortized until 24 March 2019. In this context, in accordance with IFRS 9, loans with a fair value of TL 6,709 in the current period are classified as loans at fair value through profit or loss.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ("repos"), are recognized in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method. Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as loaned securities when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability for amounts received under these agreements is included in deposits from banks.
Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date ("reverse repos") are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using the effective interest method.

Netting off Financial Assets and Liabilities

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

Recognition and Derecognition of Financial Instruments

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

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of Financial Assets

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

The Group estimates the expected credit losses for a financial lease based on the probabilities determined by taking into account the probable outcomes and estimates the fair value of the money and the estimates of past events, current conditions and future economic conditions at reasonable rates, and reflects supportable information during the reporting period.

Within the scope of internal policies, the Group, evaluates the calculation of credit losses in accordance with IFRS 9, as an individual assessment based on expert opinion. In this context, the Bank takes into account the weight of the estimating the probability of scenario of the occurrence or failure of the related loan losses and reduced expected cash flows to the reporting date with effective interest rate.

The Group uses three basic parameters in the calculation of expected credit loss as default rate, loss in default and default amount. The calculation is also based on these scenarios, time value of money, the historical observed data and the forecasting of the macroeconomic situation.

In the calculation of expected credit loss, the Group includes the prospective macroeconomic information in to the credit risk parameters. In this context, economic models based on the relationship of credit risk parameters with macroeconomic variables are established based on multi-scenario, and the models mainly take into account the basic macroeconomic variables such as Gross Domestic Product (GDP) and Unemployment Rates. The efficiency and adequacy of the models used in the calculation of credit losses are reviewed at regular intervals. Financial assets included in IFRS 9, is divided into three stages according to the change in loan quality after initial recognition and the expected credit loss is calculated according to the stage:

- Stage 1: For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.
- Stage 2: In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. For these assets, lifetime expected credit losses are recognized.
- 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.

Definition of Default:

Default means, when the borrower's payment obligations which against to the Bank, delays more than 90 days from the date of payment in part or in full, or he is not pay.

Considered as a significant increase in credit risk:

- Overdue receivables of more than 30 days
- Receivables followed in close monitoring portfolio
- Restructured receivables due to payment difficulties
- Receivables from non-problematic consumer loans from individual customers with problematic consumer loans.
- Receivables exceeding the established thresholds for the differences between the default probabilities measured at the time of the financial statements and the default probabilities observed at the reporting date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with the Central Bank of Republic of Turkey, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

2.13 Financial Liabilities

Financial liabilities including deposits from banks, due to customers and other borrowed funds are recognised initially at cost. Subsequently, financial liabilities are stated at amortised cost, including transaction costs, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

2.14 Employee Benefits

Obligations related to employee termination and vacation rights are accounted for in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19") and are classified under "Reserve for Employee Rights" account in the statement of financial position.

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total reserve for the future probable obligation of the Group arising from this liability.

According to the TAS 19 that is revised by Public Oversight Accounting and Auditing Standards Authority with the Communiqué published in Official Gazette on 12 March 2013 numbered 28585, in the calculation of the employment termination benefit liabilities of the Bank, the recognition option of the actuarial gains and losses derived from the changes in actuarial assumptions or the differences between actuarial assumptions and realizations in the income statement has been eliminated which is effective for annual periods beginning on or after 1 January 2013.

Defined Contribution Plans

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

2.15 Provisions

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Share Capital

Share capital is recognized at the nominal amount and amounts received in excess of the par value are recognized in share premium account. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction.

2.17 Leases

The Group as the lessee

Finance leases

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

The Group as the lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

The Group as the lessor

Finance leases

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised.

Operating leases

Assets leased out under operating leases are included in investment property in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the profit or loss on a straight-line basis over the lease term.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Income and Expense Recognition

Interest income and expense are recognized in the profit or loss for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized over the period service is provided. Fee for bank transfers and other banking transaction services are recorded as income when collected. Borrowing fees and commissions expenses paid to other financial institutions are recognized as transaction costs and recorded using the "Effective interest rate method".

2.19 Income Tax

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

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%.

Income taxes currently payable

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

Taxes other than on income are recorded within operating expenses (Note 28).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Income Tax (Continued)

Deferred taxes

Deferred tax is recognized, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted, or substantively enacted, at the reporting date are used to determine deferred income tax. The principal temporary differences arise from measurement of financial assets and liabilities at fair value, loan loss provisions and provision for employment termination benefits.

Deferred tax liabilities and assets are recognised when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised (Note 19).

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the profit or loss.

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.

2.20 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

2.21 Fiduciary Assets

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as originated loans. Specific provisions are therefore established when losses are considered probable and recorded as other provisions. The provision for credit related commitments also covers losses from the collective assessment where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilisation of the loan.

2.23 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments (Note 31).

2.24 Related Parties

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the shareholders are considered and referred to as related parties (Note 32).

2.25 Explanations on the Accounting Policies of the Previous Period that is not valid for the Current Period

Financial Assets

The Group classifies its financial assets in the following categories: trading securities; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

Trading Securities

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Trading securities are initially recognised and subsequently re-measured at fair value. All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Explanations on the Accounting Policies of the Previous Period that is not valid for the Current Period (Continued)

Financial Assets (Continued)

Held-to-maturity securities

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available- for- sale. The investments would therefore be measured at fair value; not amortized cost.

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

Available-for-sale securities

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on re-measurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

Dividends received are included in dividend income, if any.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

Loans and receivables

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

The Group's classification of its financial assets and liabilities is explained in transition disclosures. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in transition disclosures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Explanations on the Accounting Policies of the Previous Period that is not valid for the Current Period (Continued)

Impairment of Financial Assets

Financial assets carried at amortized cost

In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans and held to maturity investments. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) Significant financial difficulty of the issuer or obliger;

b) A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;

c) The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

e) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

   i) Adverse changes in the payment status of borrowers; or

   ii) National or local economic conditions that correlate with defaults on the assets in the group of financial assets.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Loans with principal and/or interest overdue for more than 90 days are considered as non-performing and are assessed for impairment.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Explanations on the Accounting Policies of the Previous Period that is not valid for the Current Period (Continued)

Impairment of Financial Assets (Continued)

Financial assets carried at amortized cost (Continued)

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The Group calculates portfolio provision according to Incurred but not reported ("IBNR") model for performing loans, based on Basel II expected loss concept with intrinsic elements such as loss detection period, probability of default, loss given default and expert views. IBNR impairments on loans represent the provisions that are created not only for transaction on which loss events were individually identified, but also for these transactions where loss events have already occurred, but have not been reported yet. In such case provision is created in such proportion to the exposure that reflects the amount of losses that have been incurred as a result of the past but not reported events.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount. There is no impairment recorded related to assets carried at cost.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assess at the end of the each reporting period if there is objective evidence that an investments is impaired.

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

The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in transition disclosures.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Transition disclosures

The following disclosure set out the impact of adopting IFRS 9 on the statement of financial position and equity including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Assets	**31 December 2017**	**IFRS 9 Reclassification Effect**	**IFRS 9 Measurement Effect**	**1 January 2018**
Cash and balances with central banks, net	2,287,411	-	-	2,287,411
Cash and balances with central banks	*2,287,411*	-	-	*2,287,411*
Expected credit losses on cash and balances with central banks (-)	-	-	-	-
Loans and advances to banks,net	701,556	-	-	701,556
Loans and advances to banks	*701,556*	-		*701,556*
Expected credit losses on loans and advances due from banks (-)	-	-	-	-
Financial assets held for trading	95,581	(95,581)		-
Derivative assets held for risk management	1,632	(1,632)		-
Financial assets at fair value through profit and loss	-	36,569	-	36,569
Derivative financial assets	-	90,819	-	90,819
Loans and advances to customers, net	12,833,559	-	(487,565)	12,345,994
Loans and advances to customers at amortised cost	*13,306,841*	*(19,122)*	-	*13,287,719*
Loans and advances to customers at FVTPL		*19,122*	-	*19,122*
Specific allowance for impairment on cash loans (-)	*(361,845)*		*361,845*	-
Collective allowance for impairment on cash loans (-)	*(111,437)*		*111,437*	-
Expected credit losses on loans and advances to customers (-)	-	-	*(960,847)*	*(960,847)*
Investment securities	2,530,606	(30,175)	55,736	2,556,167
Available-for-sale	*1,648,746*	*(1,648,746)*	-	-
Fair value through other comprehensive income ("FVOCI")	-	*8,078*	-	*8,078*
Held-to-maturity	*881,860*	*(881,860)*	-	-
Amortised cost ("AC")	-	*2,492,353*	*56,173*	*2,548,526*
Expected credit losses on investment securities (-)	-	-	*(437)*	*(437)*
Leasing receivables, net	1,631,721	-	(16,071)	1,615,650
Leasing receivables	*1,659,394*		-	*1,659,394*
Specific allowance for impairment on leasing receivables (-)	*(27,673)*		*27,673*	-
Expected credit losses on leasing receivables (-)			*(43,744)*	*(43,744)*
Other intangible assets	92,411	-	-	92,411
Property and equipment	38,511	-	-	38,511
Deferred income tax assets	74,561	-	95,753	170,314
Other assets	384,145	-	-	384,145
Total assets	**20,671,694**	**-**	**(352,147)**	**20,319,547**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Transition disclosures (Continued)

	31 December 2017	IFRS 9 Reclassification Effect	IFRS 9 Measurement Effect	1 January 2018
Liabilities				
Deposits from banks	1,140,158	-	-	1,140,158
Due to customers	10,726,888	-	-	10,726,888
Other borrowed funds	4,019,045	-	-	4,019,045
Debt securities issued	1,197,506	-	-	1,197,506
Derivative financial instruments	166,990	-	-	166,990
Other provisions	60,628	-	783	61,411
Provision for losses on credit related commitments	*33,044*	-	*(33,044)*	-
Expected credit losses on non-cash loans	-	-	*33,827*	*33,827*
Other provisions	*27,584*	-	-	*27,584*
Retirement benefit obligations	8,550	-	-	8,550
Other liabilities	388,449	-	-	388,449
Subordinated liabilities	1,330,146	-	-	1,330,146
Total liabilities	**19,038,360**	**-**	**783**	**19,039,143**
Equity				
Share capital	980,000	-	-	980,000
Share premium	54	-	-	54
Own shares acquired	-	-	-	-
Fair value reserves	(108,651)	-	45,399	(63,252)
Legal reserves	30,102	-	-	30,102
Other reserves	264,195			264,195
Retained earnings	467,619		(398,329)	69,290
Non-controlling interests	15	-	-	15
Total liabilities and Equity	**20,671,694**	**-**	**(352,147)**	**20,319,547**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Explanations on Accounting Policies, Changes in Accounting Estimates and Errors Standard

The Parent Bank's revisions to the past period are explained as below:

As of 31 December 2018, The Parent Bank, has started to follow the subordinated loan which was obtained from its controlling shareholder The Commercial Bank (P.S.Q.C.) amounting to USD 75 million and classified to the equity account in 31 July 2017, as Turkish Liras, in accordance with the "Effects of Foreign Exchange Rate Changes Accounting Policy" and using 31 July 2017 closing US dollar rate. The Parent Bank has restated its subordinated loan amounting to TL 264,195 in the financial statements dated 31 December 2017. According to the "TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors", the foreign exchange differences amounting to TL 18,698 between 31 July 2017 and 31 December 2017, transferred to the prior year profit or loss. Interest accruals of subordinated loan amounting to TL 11,920 in 2017 also transferred to the prior year profit or loss in accordance with TAS 8.

2.28 New standards and interpretations not yet adopted

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

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. The Bank has chosen to implement paragraph C5(b) of the relevant standard and will not rearrange comparative information. The implementation of this amendment to IFRS 16 is not expected to have a significant impact on the financial statements of the Group.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 New standards and interpretations not yet adopted (Continued)

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

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

Annual Improvements to IFRSs 2014-2016 Cycle

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

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

IFRS 12 "Disclosure of Interests in Other Entities"

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

IAS 28 "Investments in Associates and Joint Ventures"

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 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.

	31 December 2018	31 December 2017
Profit attributable to equity holders of the Bank	204,898	67,840
Weighted average number of ordinary shares in issue (thousand)	1,154,935	980,000
Basic earnings and diluted per thousand share (expressed in full TL)	**0.1774**	**0.0692**

The Bank does not have diluted shares.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- **Notes 2.11** -Impairment of financial assets;
- **Note 4 (H)-**determination of the fair value of financial instruments with significant unobservable inputs;
- **Note 12-**impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts; and
- **Note 19-**recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- **Note 21-**measurement of defined benefit obligations: key actuarial assumptions;

NOTE 4 - FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities.

Risk Management is responsible for monitoring and managing all potential risks for the Bank in a centralized and efficiently coordinated manner. The primary goal of Risk Management is to provide business lines appropriate capital allocation for risks they are exposed to and increase value-added by maximizing risk adjusted return on capital. In this connection, each business line is geared to design appropriate cost-benefit schedule to maximize its return expectation with minimum cost of capital.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Strategy in using financial instruments (Continued)

The Bank's Risk Management Policy covers market, structural interest rate, credit, operational and liquidity risks management.

The risk management governance at the Bank starts with the Board of Directors. The Bank Risk Committee, Asset Liability Committee (ALCO), Credit Risk Committee (CRC), Market Risk Committee (MRC), Operational Risk Committee (ORC) and the Risk Management Department are the most important bodies of the risk management structure.

The Board of Directors determines the general risk policy and the risk appetite of the Bank. The Bank Risk Committee defines risk policies and strategies, reviews all types of risks the Bank is exposed to in its quarterly meetings, monitors the implementation of the risk management strategies and brings the important risk issues to the attention of the Board. The ALCO, meeting bi-weekly, is responsible for monitoring and managing any structural asset liability mismatch of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange rate risk. The CRC meets quarterly and is responsible for monitoring and evaluating the Bank's lending portfolio and determining principles and policies regarding credit risk management processes, such as loan approval, limit setting, rating, monitoring and problem management. The MRC is responsible for implementing risk policies regarding both the trading book and the investment book and establishing relevant control systems. In addition, it defines certain limits and regularly reviews these in order to limit and minimize the potential adverse effects of market conditions on the Bank's profitability and economic value. The ORC also meets quarterly and is responsible for reviewing the Bank's operational risks and defining the necessary actions to be taken to minimize these risks.

A. Credit risk

Credit risk is defined as the potential loss arising from a borrower's inability to meet its financial obligations to the Bank. Credit risk is the risk of highest concern due to its large presence on the statement of financial position. Consequently, the Bank's credit risk management framework was designed in a manner to ensure that non-performing loans are kept as low as possible. In order to keep the quality of the Bank's credit portfolio at a predefined level, the credit portfolio is regularly analysed and reported in terms of economic sectors, large exposures, rating distribution, collateral structure, non-performing loans amount, and other various aspects. In measuring credit risk, the Bank estimates the probability of default and the potential size of loss in the event of such default. Probability of default is generated by the Bank's internal rating tool and outputs for potential size of loss are derived from assessments of collateral quality and recovery rates. This grading process draws upon a scorecard containing quantitative and qualitative measures and the expertise of the Bank's credit officers. The validation and on-going monitoring of the grading models are the responsibilities of the Risk Management Department and depending on validation results models are continuously reviewed and improved if necessary.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (Continued)

Credit quality per class of financial assets is as follows;

a. Information on loans and receivables past due but not impaired:

31 December 2018	Corporate	SME	Consumer	Credit Card	Total
Past due up to 30 days	429,413	106,462	45,177	824	581,876
Past due 30-60 days	124,721	48,069	11,469	133	184,392
Past due 60-90 days	273,812	172,995	2,059	184	449,050
Total	**827,946**	**327,526**	**58,705**	**1,141**	**1,215,318**

31 December 2017	Corporate	SME	Consumer	Credit Card	Total
Past due up to 30 days	104,198	283,651	29,480	767	418,096
Past due 30-60 days	7,940	82,908	5,267	25	96,140
Past due 60-90 days	5,072	48,436	597	12	54,117
Total	**117,210**	**414,995**	**35,344**	**804**	**568,353**

b. Information on debt securities, treasury bills and other bills:

To determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks", international rating firm Japan Credit Rating Agency (JCR) is started to be used as a result of rotation with 31 October 2016 instead of Fitch Ratings` external risk ratings which had been used since 31 December 2012.

Japan Credit Rating Agency	Credit Quality Level
AAA to AA-	1
A+ to A-	2
BBB+ to BBB	3
BB+ to BB-	4
B+ to B-	5
CCC and lower	6

31 December 2018 Japan JCR's Rating	Financial Assets at Fair Value through P/L (Net)	Financial Assets at Fair Value through OCI	Financial Assets at Amortised Cost	Total
BBB- (*)	42,048	2,486	3,427,060	3,471,594
Total	**42,048**	**2,486**	**3,427,060**	**3,471,594**

(*) Consist of Turkish Republic government bonds, private sector bonds and treasury bills.

31 December 2017 Japan JCR's Rating	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net) (*)	Held to Maturity Securities (Net)	Other Funds (Net)	Total
BBB- (*)	6,394	1,296,856	881,860	346,318	2,531,428
Total	**6,394**	**1,296,856**	**881,860**	**346,318**	**2,531,428**

(*) Consist of Turkish Republic government bonds, private sector bonds and treasury bills.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (Continued)

c. Information on rating concentration:

The credit risk is evaluated according to Bank's internal rating system. The loans rated according to probability of default, from the best rating (above standard), to the lowest rate (substandard) are presented in the below table and at the bottom of the table there is past due loans (impaired).

"Above standard" category means that the debtor has a strong financial structure,"standard" category means that debtor has a good and sufficient financial structure, "substandard" category means that the debtor's financial structure under risk in the short and medium term.

	31 December 2018	31 December 2017
Above standard (A,B)	92.04%	86.43%
Standard (C)	1.01%	3.85%
Substandard (D)	2.46%	4.81%
Impaired (E)	4.49%	4.91%
Not rated		-

d. Fair value of collaterals (loans and advances to customers):

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledge on vehicles.

31 December 2018	Corporate	SME	Consumer	Credit Card	Total
Watch listed loans	4,523,083	3,173,886	108,168	8,207	7,813,344
Loans under legal follow - up	272,481	392,530	3,465	706	669,182
Total	**4,795,564**	**3,566,416**	**111,633**	**8,913**	**8,482,526**

31 December 2017	Corporate	SME	Consumer	Credit Card	Total
Loans under close monitoring	154,348	1,048,939	7,185	43	1,210,515
Loans under legal follow - up	378,064	155,300	1,074	1,106	535,544
Total	**532,412**	**1,204,239**	**8,259**	**1,149**	**1,746,059**

Type of Collaterals	31 December 2018	31 December 2017
Real-estate mortgage	6,518,391	1,661,936
Cash and cash equivalents	439,771	23,726
Car pledge	730,453	7,102
Other	793,911	53,295
Total	**8,482,526**	**1,746,059**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (Continued)

e. Concentration of credit risk based on geographical regions:

	Turkey	EU	Other	Total
Cash and balances with the Central Bank of Turkey	2,212,051	-	-	2,212,051
Loans and advances to banks	1,264,789	24,280	146,411	1,435,480
Financial assets at fair value through profit or loss	3,272	38,776	-	42,048
Derivative financial instruments	113,474	60,532	20,606	194,612
Loans and advances to customers, net	15,266,137	65,393	4,590	15,336,120
- Corporate	9,650,948	65,393	4,590	9,720,931
- SME	5,440,442	-	-	5,440,442
- Consumer	151,287	-	-	151,287
- Credit card	23,460	-	-	23,460
Investment securities	3,434,768	-	-	3,434,768
- Investment securities at fair value through other comprehensive income	8,144	-	-	8,144
- Investment securities at amortised cost	3,426,624	-	-	3,426,624
Leasing receivables	1,891,972	-	-	1,891,972
Other intangible assets	100,880	-	-	100,880
Property and equipment	283,361	-	-	283,361
Deferred income tax assets	172,895	-	-	172,895
Other assets	617,239	-	-	617,239
As of 31 December 2018	**25,360,838**	**188,981**	**171,607**	**25,721,426**
As of 31 December 2017	**20,480,214**	**110,039**	**81,441**	**20,671,694**
Letter of guarantees	4,791,743	705	178,960	4,971,408
Letter of credits	465,470	166,481	106,010	737,961
Acceptance credits	20,522	-	-	20,522
Other commitments and contingencies	424,770	29,428	113,418	567,616
As of 31 December 2018	**5,702,505**	**196,614**	**398,388**	**6,297,507**
As of 31 December 2017	**3,811,980**	**143,530**	**676,207**	**4,631,717**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (Continued)

f. Sectoral concentration:

	31 December 2018		31 December 2017	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Agricultural	**129,562**	**16,016**	**218,816**	**17,109**
Farming and raising livestock	70,987	15,711	186,490	12,940
Forestry	3,716	102	5,348	281
Fishery	54,859	203	26,978	3,888
Manufacturing	**4,624,460**	**2,600,850**	**3,672,104**	**1,026,989**
Mining	156,178	206,303	217,105	15,552
Production	3,611,908	2,282,209	2,609,357	914,910
Electric, gas and water	856,374	112,338	845,642	96,527
Construction	**2,437,462**	**551,462**	**1,798,613**	**505,802**
Services	**7,918,533**	**2,500,944**	**6,677,285**	**2,357,430**
Wholesale and retail trade	2,324,179	573,056	2,351,140	501,695
Hotel, food and beverage services	210,058	3,184	240,399	3,750
Transportation and telecommunication	1,459,188	150,790	599,121	77,050
Financial institutions	1,189,123	1,514,149	972,508	1,548,977
Real estate and renting services	1,876,100	115,092	1,437,338	92,142
Self-employment services	733,614	122,403	945,342	116,954
Education services	1,604	364	7,182	445
Health and social services	124,667	21,906	124,255	16,417
Other	**496,995**	**60,619**	**338,165**	**34,755**
Total	**15,607,012**	**5,729,891**	**12,704,983**	**3,942,085**
Non-performing loans	683,853	-	662,237	-
Allowance for impairment	(954,000)	(55,828)	(500,955)	(33,044)
Total	**15,336,865**	**5,674,063**	**12,866,265**	**3,910,079**

g. Carrying amounts per class of financial assets whose terms have been renegotiated:

	31 December 2018	31 December 2017
Loans and advances to customers		
- Corporate lending	190,192	125,057
- Small business lending	62,223	83,047
- Consumer lending	233	932
Total	**252,648**	**209,036**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

h. Offsetting financial assets and financial liabilities:

The disclosures set out in the tables below include financial assets and financial liabilities that:

• are offset in the Group's statement of financial position; or

• are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2018	Derivative financial instruments	194,612	-	194,612	-	(80,543)	114,069
31 December 2017	Derivative financial instruments	89,187	-	89,187	-	(38,974)	50,213

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral pledged	Net amount
31 December 2018	Derivative financial instruments	174,120	-	174,120	-	(306,514)	(132,394)
31 December 2017	Derivative financial instruments	166,990	-	166,990	-	(108,007)	58,983

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

B. Market Risk

Market risk is the risk of potential loss arising from the adverse effects of interest rates, exchange rates and equity price volatility inherent in the Bank's trading portfolio. The Bank calculates the regulatory capital requirement for market risk using the standardized method within the framework of Banking Regulatory and Supervision Agency guidelines. In accordance with international best practices, Value at Risk (VaR) is measured daily. VaR, which is a measure of the maximum potential loss on the trading portfolio, is calculated using the historical simulation VaR method, adjusted for EWMA (Exponentially Weighted Moving Average). In order to manage the market risk efficiently and to be consistent with the risk appetite, position limits for asset classes, an overall "Bank Risk Tolerance" and VaR limits for each risk factor are determined. Limit monitoring is done daily by the Risk Management Group. VaR results are supported by regular stress tests and scenario analysis.

The Bank utilizes back testing to verify the predictive power of the value-at-risk calculations. In back testing, theoretical gains/losses calculated by VAR on positions at the close of each business day are compared with the actual gains/losses arising from these positions on the next business day. The assumptions used in the VaR model are reviewed and revised as needed based on the results of the back testing process.

C. Currency Risk

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

The table below summarizes the Group's exposure to foreign currency exchange rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

C. Currency Risk (Continued)

31 December 2018

	USD	EUR	Other	Total	TL	Total
Cash and balances with the Central Bank of Turkey	1,757,364	78,636	32,465	1,868,465	343,586	2,212,051
Loans and advances to banks	527,807	13,905	20,086	561,798	873,682	1,435,480
Financial assets at fair value through profit or loss	40,213	-		40,213	1,835	42,048
Derivative financial assets	52,468	1,404	169	54,041	140,571	194,612
Loans and advances to customers [1]	3,516,591	6,839,166	2,705	10,358,462	6,869,630	17,228,092
Investment securities	3,108,916	-	-	3,108,916	325,852	3,434,768
- Investment securities at fair value through other comprehensive income	-	-	-	-	8,144	8,144
- Investment securities at amortised cost	3,108,916	-	-	3,108,916	317,708	3,426,624
Other intangible assets	-	-	-	-	100,880	100,880
Property and equipment	-	-	-	-	283,361	283,361
Deferred income tax assets	-	-	-	-	172,895	172,895
Other assets	136,489	175,709		312,198	304,665	616,863
Total assets	**9,139,848**	**7,108,820**	**55,425**	**16,304,093**	**9,416,957**	**25,721,050**
Liabilities						
Deposits from banks	690,438	42	405	690,885	147,965	838,850
Due to customers	5,802,881	807,039	75,273	6,685,193	6,780,236	13,465,429
Other borrowed funds and subordinated liabilities	4,588,507	2,079,226	2,027	6,669,760	64,421	6,734,181
Debt securities issued	1,338,284	-	-	1,338,284	558,349	1,896,633
Derivative financial instruments	70,690	2,302	-	72,992	101,128	174,120
Derivatives held for risk management	-	-	-	-	4,023	4,023
Other provisions	30	-	-	30	92,102	92,132
Retirement benefit obligations	-	-	-	-	8,705	8,705
Other liabilities[2]	409,517	89,661	-	499,178	2,007,799	2,506,977
Total liabilities	**12,900,347**	**2,978,270**	**77,705**	**15,956,322**	**9,764,728**	**25,721,050**
Net balance sheet position	**(3,760,499)**	**4,130,550**	**(22,280)**	**347,771**	**(347,771)**	**-**
Off balance sheet derivative instruments net notional position	**4,160,552**	**(4,136,607)**	**24,738**	**48,683**	**101,456**	**150,139**
Net foreign currency position	**400,053**	**(6,057)**	**2,458**	**396,454**	**(246,315)**	**150,139**
31 December 2017						
Total assets	6,661,936	5,565,344	322,663	12,549,943	8,121,751	20,671,694
Total liabilities	10,071,029	3,199,301	440,771	13,711,101	6,960,593	20,671,694
Net balance sheet position	**(3,409,093)**	**2,366,043**	**(118,108)**	**(1,161,158)**	**1,161,158**	**-**
Off-balance sheet derivative instruments net notional position	3,390,491	(2,361,175)	119,905	1,149,221	(1,169,277)	(20,056)
Net foreign currency position	**(18,602)**	**4,868**	**1,797**	**(11,937)**	**(8,119)**	**(20,056)**

(1) Includes lease receivables. Collective impairment allowance of TL 515,707 (31 December 2017: TL 111,437) is presented as TL balance in the table above)

(2) Other liabilities balance contains equity.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

C. Currency Risk (Continued)

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2018. The Group's foreign currency risk sensitivity is presented below:

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group's sensitivity to a 20% increase and decrease in the TL against the relevant foreign currencies in 31 December 2018 and sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies in 31 December 2017. A positive number indicates an increase in profit or loss and other equity where the TL strengthens against the relevant currency.

	31 December 2018		**31 December 2017**	
	Income statement	**Equity**	**Income statement**	**Equity**
USD	(80,011)	(80,011)	(1,860)	(1,860)
EUR	1,211	1,211	487	487
Other	(492)	(492)	180	180
Total, net	**(79,292)**	**(79,292)**	**(1,193)**	**(1,193)**

	31 December 2018		**31 December 2017**	
	Income statement	**Equity**	**Income statement**	**Equity**
USD	80,011	80,011	1,860	1,860
EUR	(1,211)	(1,211)	(487)	(487)
Other	492	492	(180)	(180)
Total, net	**79,292**	**79,292**	**1,193**	**1,193**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk

Even though the Bank is exposed to structural interest rate risk on its statement of financial position due to the nature of its existing activities, it ensures that this risk remains within pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/GAP analyses, which rely on calculations of net discounted future cash flows of interest rate sensitive statement of financial position items, are conducted to manage this risk.

The Bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins, so as to calculate their impact on net economic value, as defined in the relevant regulation published by BRSA. Beside the BRSA standard interest rate shock scenario, other internally defined scenarios are also simulated.

Trading and non-trading risks are approved separately in the policy documents and the Market Risk Committee is given discretion in defining the tools and methodology used in measuring, monitoring and managing both trading and non-trading risks.

Interest rate sensitivity:

31 December 2018 (*)	Applied Shock (+/- x basis point)	Gains/ Losses	Gains/ Equity-Losses/ Equity
	+500bps	(111,147)	(2.95%)
1.TRY	-400 bps	99,527	2.64%
	+200 bps	(69,062)	(1.83%)
2.EURO	-200 bps	78,031	2.07%
	+200 bps	(78,503)	(2.08%)
3.USD	-200 bps	94,187	2.50%
Total (For Negative Shocks)		**271,745**	**7.21%**
Total (For Positive Shocks)		**(258,712)**	**(6.86%)**

(*) The analysis is based on Parent Bank's financial position.

31 December 2017 (*)	Applied Shock (+/- x basis point)	Gains/ Losses	Gains/ Equity-Losses/ Equity
	+500bps	(166,041)	(5.67)%
1.TRY	-400 bps	151,486	5.17%
	+200 bps	(60,272)	(2.06)%
2.EURO	-200 bps	33,565	1.15%
	+200 bps	(56,158)	(1.92)%
3.USD	-200 bps	72,014	2.46%
Total (For Negative Shocks)		**257,065**	**8.78%**
Total (For Positive Shocks)		**(282,471)**	**(9.65)%**

(*) The analysis is based on Parent Bank's financial position.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk (Continued)

31 December 2018	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with the Central Bank of Turkey	1,801,048	-	-	-	411,003	2,212,051
Loans and advances to banks	1,369,542	-	-	-	65,938	1,435,480
Financial assets at fair value through profit or loss	41,459	589	-	-	-	42,048
Derivative financial assets	65,968	17,958	99,372	61	11,253	194,612
Loans and advances to customers (*)	6,042,244	4,836,310	5,790,922	733,235	(174,619)	17,228,092
Investment securities	1,957,532	1,472,014	-	-	5,222	3,434,768
- Investment securities at fair value through other comprehensive income	2,486	-	-	-	5,658	8,144
- Investment securities at amortised cost	1,955,046	1,472,014	-	-	(436)	3,426,624
Other intangible assets	-	-	-	-	100,880	100,880
Property and equipment	-	-	-	-	283,361	283,361
Deferred income tax assets	-	-	-	-	172,895	172,895
Other assets	6,552	170	-	-	610,141	616,863
Total assets	**11,284,345**	**6,327,041**	**5,890,294**	**733,296**	**1,486,074**	**25,721,050**
Liabilities						
Deposits from bank	836,871	-	-	-	1,979	838,850
Due to customers	12,229,139	516,447	67	-	719,776	13,465,429
Other borrowed funds and subordinated liabilities	3,014,170	3,564,966	155,045	-	-	6,734,181
Debt securities issued	558,349	1,338,284	-	-	-	1,896,633
Derivative financial instruments	52,445	21,974	99,701	-	-	174,120
Derivatives held for risk management	-	-	4,023	-	-	4,023
Other provisions	-	-	-	-	92,132	92,132
Retirement benefit obligations	-	-	-	-	8,705	8,705
Other liabilities	53,205	311,069	103,663	61	2,038,979	2,506,977
Total liabilities	**16,744,179**	**5,752,740**	**362,499**	**61**	**2,861,571**	**25,721,050**
Net interest re-pricing gap	**(5,459,834)**	**574,301**	**5,527,795**	**733,235**	**(1,375,497)**	**-**

(*) Includes lease receivables.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk (Continued)

31 December 2017	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with the Central Bank of Turkey	2,027,768	-	-	-	259,643	2,287,411
Financial assets held for trading	16,267	3,298	75,707	309	-	95,581
- Trading securities	674	562	5,158	-	-	6,394
- Derivative financial instruments	15,593	2,736	70,549	309	-	89,187
Hedging derivatives	1,632					1,632
Loans and advances to banks	639,791	-	-	-	61,765	701,556
Loans and advances to customers	4,074,514	3,987,673	4,031,538	611,091	161,449	12,866,265
Investment securities	904,735	1,590,666	29,633	-	5,572	2,530,606
-Available-for-sale	678,162	935,379	29,633	-	5,572	1,648,746
- Held-to-maturity	226,573	655,287	-	-	-	881,860
Property and equipment	-	-	-	-	38,511	38,511
Intangible assets	-	-	-	-	92,411	92,411
Deferred income tax assets	-	-	-	-	74,561	74,561
Other assets (*)	184,823	403,527	981,635	5,174	408,001	1,983,160
Total assets	**7,849,530**	**5,985,164**	**5,118,513**	**616,574**	**1,101,913**	**20,671,694**
Liabilities						
Deposits from banks	1,115,447	-	-	-	24,711	1,140,158
Due to customers	10,208,666	95,378	75	-	422,769	10,726,888
Other borrowed funds and subordinated liabilities	2,218,419	3,123,072	7,700	-	-	5,349,191
Debt securities issued	113,300	129,763	954,443	-	-	1,197,506
Derivative financial instruments	84,455	12,502	69,724	309	-	166,990
Derivatives held for risk management	-	-	-	-	-	-
Other provisions	-	-	-	-	60,628	60,628
Retirement benefit obligations	-	-	-	-	8,550	8,550
Other liabilities and equity	367,777	6,641	69,724	309	1,577,332	2,021,783
Total liabilities	**14,108,064**	**3,367,356**	**1,101,666**	**618**	**2,093,990**	**20,671,694**
Net interest re-pricing gap	**(6,258,534)**	**2,617,808**	**4,016,847**	**615,956**	**(992,077)**	**-**

(*) Other assets include lease receivables.

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

	31 December 2018 (*)		
	USD (%)	EUR (%)	TL (%)
Assets			
Cash and balances with the Central Bank of Turkey	2.00	-	13.00
Loans and advances to banks	6.29	-	23.68
Money Market Placements	-	-	25.40
Financial assets at FVTPL	5.16	-	16.64
Investment securities	-	-	-
- FVTOCI	-	-	13.11
- AC	4.59	-	8.53
Loans and advances to customers	7.52	5.18	25.66
Liabilities			
Deposits from banks	1.84	-	22.07
Money Market Funds	0.55	-	-
Due to customers	5.01	1.61	22.70
Other borrowed funds and subordinated liabilities	5.93	2.22	12.83
Debt securities issued	3.12	-	24.82

(*) Represents Parent Bank's average interest rates

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk (Continued)

	31 December 2017 (*)		
	USD (%)	**EUR (%)**	**TL (%)**
Assets			
Cash and balances with the Central Bank of Turkey	1.50	-	4.00
Loans and advances to banks	1.56	1.00	12.71
Money Market Placements	-	-	12.74
Financial assets held for trading	5.12	-	12.52
Investment securities			
- Available-for-sale	6.70	-	10.29
- Held-to-Maturity	5.29	-	-
Loans and advances to customers	6.50	4.69	16.36
Liabilities			
Deposits from banks	1.45	0.25	14.21
Money Market Funds	0.49	-	6.52
Due to customers	3.81	1.91	14.80
Other borrowed funds and subordinated liabilities	5.30	2.09	6.64
Debt securities issued	3.12	-	-

(*) Represents Parent Bank's average interest rates

E. Liquidity Risk

Liquidity risk refers to the possibility of an institution being unable to access necessary funds due to declining fund-raising capacity; The Group closely monitors its overall liquidity level and operates under strict limits based on stress conditions. To address liquidity risk, the Group has adopted a unified approach to TL and foreign currency fund-raising opportunities. The key limit puts a ceiling on the share of overnight borrowing in the current funding pool and acts as a warning signal for the senior management to adjust the composition and/or the pricing of the borrowing instruments.

The Group uses domestic and foreign markets for its liquidity needs, Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (Central Bank of the Republic of Turkey ("CBRT"), ISE, Interbank money market, ISE Settlement and Custody Bank and other markets). The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group's fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investments.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. In accordance with the "Communiqué on the Measurement and Assessment of Liquidity of the Banks", liquidity ratio of the banks on a weekly and monthly basis should not be less than 80% for foreign currency denominated assets and liabilities, and for total assets and liabilities it should not be less than 100%.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (Continued)

The following tables analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

31 December 2018	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undistributed	Total
Assets						
Cash and balances with the Central Bank of Turkey	2,212,051	-	-	-	-	2,212,051
Loans and advances to banks	1,435,773	-	-	-	(293)	1,435,480
Financial assets at fair value through profit or loss			39,266	2,782		42,048
Derivative financial assets	77,225	17,958	99,372	57	-	194,612
Loans and advances to customers	7,379,036	1,884,337	6,510,803	1,642,573	(188,657)	17,228,092
Investment securities	-	56,865	1,978,116	1,394,565	5,222	3,434,768
- Investment securities at fair value through other comprehensive income	-	-	2,486	-	5,658	8,144
- Investment securities at amortised cost	-	56,865	1,975,630	1,394,565	(436)	3,426,624
Other intangible assets	-	-	-	-	100,880	100,880
Property and equipment	-	-	-	-	283,361	283,361
Deferred income tax assets	-	-	-	-	172,895	172,895
Other assets	165,479	18,390	22,131	10,899	399,964	616,863
Total assets	**11,269,564**	**1,977,550**	**8,649,688**	**3,050,876**	**773,372**	**25,721,050**
Liabilities						
Deposits from banks	838,850	-	-	-	-	838,850
Due to customers	12,948,915	516,447	67	-	-	13,465,429
Other borrowed funds and subordinated liabilities	1,263,692	1,848,463	1,758,375	1,863,651	-	6,734,181
Debt securities issued	558,349	1,338,284	-	-	-	1,896,633
Derivative financial instruments	52,445	21,974	99,701	-	-	174,120
Derivatives held for risk management	-	-	4,023	-	-	4,023
Other provisions	-	-	-	-	92,132	92,132
Retirement benefit obligations	-	-	-	-	8,705	8,705
Other liabilities	837,844	21,974	103,663	61	1,543,435	2,506,977
Total liabilities and equity	**16,500,095**	**3,747,142**	**1,965,829**	**1,863,712**	**1,644,272**	**25,721,050**
Net liquidity gap	**(5,230,531)**	**(1,769,592)**	**6,683,859**	**1,187,164**	**(870,900)**	**-**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (Continued)

31 December 2017	**Demand and up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Undistributed**	**Total**
Assets						
Cash and balances with the Central Bank of Turkey	2,287,411	-	-	-	-	2,287,411
Loans and advances to banks	701,556	-	-	-	-	701,556
Financial assets held for trading	15,579	2,829	76,092	1,081	-	95,581
- Trading securities	-	98	5,542	754	-	6,394
- Derivative financial instruments	15,579	2,731	70,550	327	-	89,187
Hedging derivatives			1,632			1,632
Loans and advances to customers	2,600,535	3,118,322	5,391,223	1,594,736	161,449	12,866,265
Investment securities	-	-	1,496,982	1,028,052	5,572	2,530,606
- Available-for-sale	-	-	971,620	671,554	5,572	1,648,746
- Held-to-maturity	-	-	525,362	356,498	-	881,860
Other intangible assets	-	-	-	-	92,411	92,411
Property and equipment	-	-	-	-	38,511	38,511
Deferred income tax assets	-	-	-	-	74,561	74,561
Other assets (*)	233,258	416,546	1,014,111	17,600	301,645	1,983,160
Total assets	**5,838,339**	**3,537,697**	**7,980,040**	**2,641,469**	**674,149**	**20,671,694**
Liabilities						
Deposits from banks	1,140,158	-	-	-	-	1,140,158
Due to customers	10,631,435	95,378	75	-	-	10,726,888
Other borrowed funds and subordinated liabilities	568,931	1,739,968	1,709,754	1,330,538	-	5,349,191
Debt securities issued	113,300	129,763	954,443	-	-	1,197,506
Derivative financial instruments	84,454	12,503	69,724	309	-	166,990
Derivatives held for risk management	-	-	-	-	-	-
Other provisions	-	-	-	-	60,628	60,628
Retirement benefit obligations	-	-	-	-	8,550	8,550
Other liabilities and equity	460,974	6,332	69,724	618	1,484,135	2,021,783
Total liabilities and equity	**12,999,252**	**1,983,944**	**2,803,720**	**1,331,465**	**1,553,313**	**20,671,694**
Net liquidity gap	**(7,160,913)**	**1,553,753**	**5,176,320**	**1,310,004**	**(879,164)**	**-**

(*) Other assets include lease receivables.

The following table presents the cash flows payable by the Group under non-derivative financial liabilities remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

31 December 2018	**Demand and up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Liabilities					
Deposits from banks	841,654	-	-	-	841,654
Due to customers	13,079,082	561,226	80	-	13,640,388
Other borrowed funds	1,274,019	2,151,657	2,026,046	1,929,512	7,381,234
Debt securities issued	626,861	1,340,775	-	-	1,967,636
Total liabilities	**15,821,616**	**4,053,658**	**2,026,126**	**1,929,512**	**23,830,912**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (Continued)

31 December 2017	**Demand and up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Liabilities					
Deposits from banks	1,141,368	-	-	-	1,141,368
Due to customers	10,693,855	96,620	84	-	10,790,559
Other borrowed funds	610,477	1,915,369	1,786,672	1,469,373	5,781,891
Debt securities issued	114,000	134,826	955,924	-	1,204,750
Total liabilities	**12,559,700**	**2,146,815**	**2,742,680**	**1,469,373**	**18,918,568**

F. Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational Risk is managed based on a framework for identifying, measuring, monitoring and managing all risks within the scope of the definition of operational risk. The Bank's risk management and internal controls allow it to control and minimize operational risks effectively under a detailed set of written procedures. These procedures are readily accessible and continuously updated and include procedures to handle all contingency events.

Studies of activity-based operational risks are continuing through the Risk Control Self-Assessment. These are categorized according to cause, event and effect categories as proposed by Basel II, and action has been taken for severe risks.

The Business Continuity Management Plan, prepared in order to minimize losses due to business disruption, has been implemented. Comprehensive annual testing of the Disaster Recovery Center (DRC) is conducted with the participation of business units and IT.

The "Basic Indicator Method" that is mentioned in "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué published in the Official Gazette no. 29511 on 23 October 2015 and entered into force as of 31 March 2016, is used in the annual operational risk calculation of the Bank. The amount subject to operational risk as of 31 December 2018 is based on the gross income of the Group for the years ended 2014, 2015 2016 and 2017. As of 31 December 2018, the total amount subject to operational risk is calculated as TL 978,813 (31 December 2017: TL 959,472) and the amount of the related capital requirement is TL 78,305 (31 December 2017: TL 76,758).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

G. Capital management

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

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with 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 Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

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

	31 December 2018	**31 December 2017**
Tier I capital	1,931,295	1,569,846
Tier II capital	1,853,469	1,369,112
Deductions	(1,515)	(447)
Total regulatory capital	**3,783,249**	**2,938,511**
Amount subject to credit risk	21,838,977	16,227,540
Amount subject to market risk	359,063	24,825
Amount subject to operational risk	978,813	959,472
Capital adequacy ratio (%)	**16.32**	**17.07**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

	31 December 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and advances to banks	1,435,480	1,435,480	701,556	630,012
Financial assets fair value through other comprehensive income	8,144	8,144	1,648,746	1,648,746
Investment securities at amortised cost	3,426,624	2,868,259	881,860	881,860
Loans and advances to customers	15,336,120	15,336,120	12,866,265	12,866,265
Financial liabilities:				
Deposits from banks (*)	838,850	838,850	1,140,158	1,109,624
Due to customers	13,465,429	13,784,081	10,726,888	11,649,784
Other borrowed funds and subordinated liabilities	6,734,181	6,734,181	5,349,191	4,244,910
Debt securities issued	1,896,633	1,919,857	1,197,506	955,926

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

Loans and advances to banks

The fair value of overnight loans and advances to banks are considered to approximate its carrying amounts. The estimated fair values of long term interest bearing loans and advances to banks are based on discounted cash flows using prevailing money market interest rates at the reporting date with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar credit risk, currency and remaining maturity to determine their fair value.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost (Continued)

Due to customers, deposits from banks, other borrowed funds

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

The estimated fair value of other borrowings and debt securities issued without quoted market price is of estimated future cash flows expected to be paid using money market interest rates prevailing at the reporting date with similar credit risk, currency and remaining maturity.

The estimated fair value of interest bearing liabilities due to customers is based on discounted cash flows of estimated future cash flows expected to be paid.

Fair value estimation

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

Level 2 trading derivatives comprise forward foreign exchange contracts, interest rate swaps and currency options. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Currency options are fair valued using by using Black & Scholes method and also active market values depending on the option type.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost (Continued)

The following tables present the Group's assets and liabilities that are measured at fair value at 31 December 2018 and 2017.

31 December 2018	Level 1	Level 2 (*)	Level 3	Total
Financial assets at fair value through profit or loss	3,272	38,776	-	42,048
Derivative financial assets	-	194,612	-	194,612
Financial assets fair value through other comprehensive income	5,658	2,486	-	8,144
Hedged Loans	-	6,709	-	6,709
Total assets	**8,930**	**242,583**	**-**	**251,513**
Derivative financial liabilities	-	178,143	-	178,143
Total liabilities	**-**	**178,143**	**-**	**178,143**

(*) Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, discount rates and foreign currency exchange rates.

31 December 2017	Level 1	Level 2 (*)	Level 3	Total
Financial assets held for trading				
- Debt securities	6,394	-	-	6,394
- Derivative financial instruments	-	89,187	-	89,187
Investments securities-available for sale	1,616,071	32,675	-	1,648,746
FV of Hedged loans	-	19,123	-	19,123
Derivative assets held for risk management	-	1,632	-	1,632
Total assets	**1,622,465**	**142,617**	**-**	**1,765,082**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	166,990	-	**166,990**
Total liabilities	**-**	**166,990**	**-**	**166,990**

(*) Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, discount rates and foreign currency exchange rates.

I. Fiduciary activities

The Group provides custody services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Fiduciary capacity of the Group is as follows:

	31 December 2018	31 December 2017
Investment securities held in custody	1,000,651	549,007
Cheques received for collection	398,469	407,593
Customer investment security portfolio	42,254	99,875
Commercial notes received for collection	71,458	64,163
Total	**1,512,832**	**1,120,638**

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

NOTE 5 - CASH AND CASH EQUIVALENTS

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

	31 December 2018	31 December 2017
Cash and cash equivalents	98,124	94,963
Demand deposits with the Central Bank of Turkey	1,331,460	676,768
Loans and advances to banks (with original maturity less than three months)	1,435,146	701,375
Cash and cash equivalents (*)	**2,864,730**	**1,473,106**

(*) Excluding accruals and restricted deposits with Central Bank of Turkey.

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

	31 December 2018	31 December 2017
Cash and cash equivalents		
Cash in hand - foreign currency	79,982	73,998
Cash in hand - TL	18,142	20,965
	98,124	**94,963**
Demand deposits at central banks		
Foreign currency	1,026,157	445,723
TL	325,094	165,699
	1,351,251	**611,422**
Time deposits at central banks		
TL	-	66,365
	-	**66,365**
Reserve deposits at central banks		
Foreign currency	755,100	1,514,661
	755,100	**1,514,661**
Cash in transit	**7,576**	**-**
Total	**2,212,051**	**2,287,411**

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 Communiqué numbered 2005/1 "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.

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

NOTE 6 - CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY (Continued)

The required reserves may keep in reserve in Central Bank of Turkey as Turkish Lira, USD and/or Euro and standard gold. As of 31 December 2018, the Turkish lira required reserve ratios are determined to be within the range of 4%-10.5% depending on the maturity structure of deposits denominated in Turkish Lira (31 December 2017: 4%-10.5% for all Turkish Lira liabilities), and the required reserve ratios for foreign currency deposits within the range of 9%-13% (31 December 2017: 9%-13% for all foreign currency deposits) and other foreign currency liabilities within the range of 4%-24% (31 December 2017: 4%-24% for all foreign currency liabilities). CBRT started to pay interest for the Turkish Lira reserve since 5 November 2014. CBRT also started to pay interest for the Foreign Currency reserve since 5 May 2015.

NOTE 7 - LOANS AND ADVANCES TO BANKS

	31 December 2018			31 December 2017		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
TL:						
Nostro/demand deposits	598	-	598	604	-	604
Time deposits	242,938	-	242,938	115,612	-	115,612
Interbank money market	630,439	-	630,439	350,122	-	350,122
	873,975	**-**	**873,975**	**466,338**	**-**	**466,338**
Foreign currency:						
Nostro/demand deposits	1,283	64,350	65,633	718	60,443	61,161
Time deposits	389,782	106,383	496,165	162,740	11,317	174,057
	391,065	**170,733**	**561,798**	**163,458**	**71,760**	**235,218**
Expected credit losses(-)	**258**	**35**	**293**	**-**	**-**	**-**
Total	**1,264,782**	**170,698**	**1,435,480**	**629,796**	**71,760**	**701,556**

NOTE 8 - FINANCIAL ASSETS AT FAİR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	**31 December 2017**
Government bonds and treasury bills	42,048	6,394
Total debt securities	**42,048**	**6,394**
Derivative financial instruments	194,612	89,187
Total financial assets at fair value through profit or loss	**236,660**	**95,581**

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities represent corporate bonds issued by companies incorporated in Turkey.

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

"Currency swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group risks are represented by the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an on-going basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients' needs.

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

31 December 2018	**Contract/notional**	**Fair values**	
	amount	**Assets**	**Liabilities**
Derivatives held for trading			
Currency forwards	1,074,078	23,628	(20,469)
Currency swaps	18,663,807	152,109	(142,475)
OTC currency options	2,216,363	17,390	(11,176)
Total	**21,954,248**	**193,127**	**(174,120)**

31 December 2017	**Contract/ notional**	**Fair values**	
	amount	**Assets**	**Liabilities**
Derivatives held for trading			
Currency forwards	510,735	2,907	(10,946)
Currency swaps	16,074,622	80,376	(148,617)
OTC currency options	3,856,114	5,904	(7,427)
Total	**20,441,471**	**89,187**	**(166,990)**

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

31 December 2018	**Contract/ notional amount**	**Fair values**	
		Assets	**Liabilities**
Derivatives held for risk management			
Interest rate swaps (*)	710,000	1,485	4,023
Total	**710,000**	**1,485**	**4,023**

(*) Explained in Note 2, footnote 2.10.

31 December 2017	**Contract/ notional amount**	**Fair values**	
		Assets	**Liabilities**
Derivatives held for risk management			
Interest rate swaps (*)	110,000	1,632	-
Total	**110,000**	**1,632**	**-**

(*) Explained in Note 2, footnote 2.10.

The impact of fair value hedge accounting application is summarized below:

31 December 2018

Hedging Instrument	**Asset liability hedging**	**Risk Hedge**	**Fair value gain of hedged asset**	**Net fair value of hedging account**	
				Asset	**Liability**
Interest swap contract	Fixed interest, fixed payment commercial loans	Fixed interest rate risk	(1,125)	6,709	-

31 December 2017

Hedging Instrument	**Asset liability hedging**	**Risk Hedge**	**Fair value gain of hedged asset**	**Net fair value of hedging account**	
				Asset	**Liability**
Interest swap contract	Fixed interest, fixed payment commercial loans	Fixed interest rate risk	(1,339)	1,632	-

The Bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in "Trading gains and losses on derivative financial instruments" account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortised cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the "Trading gains and losses on derivative financial instruments" account.

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

31 December 2018	Corporate	SME	Consumer	Credit Card	Lease Receivables	Total
Performing loans	8,434,003	4,680,339	139,440	21,204	1,437,550	14,712,536
Loans under close monitoring	1,724,910	593,780	10,414	2,177	396,742	2,728,023
Loans under legal follow-up	281,398	398,508	3,307	640	135,343	819,196
Gross	**10,440,311**	**5,672,627**	**153,161**	**24,021**	**1,969,635**	**18,259,755**
Less: 12 month ECL (stage 1)	49,812	47,316	667	472	2,468	100,735
Less: Lifetime ECL significant increase in credit risk (stage 2)	346,873	46,677	58	64	21,549	415,221
Less: Lifetime ECL impaired credits (stage 3)	322,695	138,192	1,149	25	53,646	515,707
Total allowance for impairment	**719,380**	**232,185**	**1,874**	**561**	**77,663**	**1,031,663**
Net	**9,720,931**	**5,440,442**	**151,287**	**23,460**	**1,891,972**	**17,228,092**

31 December 2017	Corporate	SME	Consumer	Credit Card	Lease Receivables	Total
Performing loans	8,425,625	2,930,096	172,107	20,656	1,599,015	13,147,499
Loans under close monitoring	987,798	161,310	7,026	365	-	1,156,499
Loans under legal follow-up	299,985	293,122	4,719	4,032	60,379	662,237
Gross	**9,713,408**	**3,384,528**	**183,852**	**25,053**	**1,659,394**	**14,966,235**
Specific allowance for impairment	209,141	141,718	7,613	3,373	27,673	389,518
Collective allowance for impairment	83,897	26,302	1,104	134	-	111,437
Total allowance for impairment	**293,038**	**168,020**	**8,717**	**3,507**	**27,673**	**500,955**
Net	**9,420,370**	**3,216,508**	**175,135**	**21,546**	**1,631,721**	**14,465,280**

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

31 December 2018	Allowance for Impairment on Stage 1& Stage 2 Loans	Allowance for Impairment on Stage 3 Loans	Total
At January, 2018	407,895	596,696	1,004,591
Charge for the year	261,008	179,099	440,107
Collection and Recoveries	(18,498)	(259,839)	(278,337)
Amounts written off (*)	(134,698)	-	(134,698)
Total	**515,707**	**515,956**	**1,031,663**

(*) Alternatiflease A.Ş has sold non-performing loans of TL 7,766 and provision amounting to TL 7,766 to Met-Ay Yönetim A.Ş. on 25 December 2018 for TL 76.
The Parent Bank has sold non-performing loans of TL 95,525 and provision amounting to TL 95,525 to Sümer Varlık Yönetim A.Ş. on 22 March 2018 for TL 1,980.
The Parent Bank has written – off non-performing loans corresponds to provision amount of TL 31,407 and has collected TL 8,927, due to the protocols which made with the creditors and in accordance with the decisions of the Board of Directors.

31 December 2017	Individual Impairment	Collective Impairment	Total
At January ,2017	362,419	96,992	459,411
Charge for the year	178,804	102,127	280,931
Collection and Recoveries	(25,741)	(87,682)	(113,423)
Amounts written off (*)	(125,963)	-	(125,963)
Total	**389,518**	**111,437**	**500,955**

(*) The Group has written-off non-performing loans under the collections campaign of TL 1,759 with a net book value of TL 200 and provision amounting to TL 1,559 in May and has sold non-performing loans of TL 99,396 with a net book value of TL 2,936 and provision TL 96,460 to Turk Asset Varlık Yönetim A.Ş. on 17 August 2016.

NOTE 11 - INVESTMENT SECURITIES

(i) Investment securities at fair value through other comprehensive income

	31 December 2018
Investment securities at fair value through other comprehensive income	
Government bonds and treasury bills	8,144
Government bonds and treasury bills sold under repurchase agreements	-
Total securities at fair value through other comprehensive income	**8,144**

	31 December 2017
Available-for sale Investment securities	
Government bonds and treasury bills	1,097,921
Government bonds and treasury bills sold under repurchase agreements	550,825
Total securities Available-for-sale	**1,648,746**

There is no investment security at fair value through other comprehensive income, pledged to banks and other financial institutions against funds obtained under repurchase agreements as at 31 December 2017. Available-for-sale whose total carrying amount is TL 550,825 as at 31 December 2017 are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

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

NOTE 11 - INVESTMENT SECURITIES (Continued)

Investment securities at fair value through other comprehensive income are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. There is no investment security at fair value through other comprehensive in this context as at 31 December 2018. As at 31 December 2017, these are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 24,611.

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey at 31 December 2017.

There are no impairments recognised for available-for-sale securities

(ii) Investment securities at amortised cost

	31 December 2018
Debt securities - at amortised cost - listed:	
Government bonds and treasury bills	2,361,770
Government bonds and treasury bills sold under repurchase agreements	1,065,290
Expected credit losses (-)	436
Total securities at amortised cost	**3,426,624**

	31 December 2017
Debt securities - at amortised cost - listed:	
Government bonds and treasury bills	699,875
Government bonds and treasury bills sold under repurchase agreements	181,985
Total securities held-to-maturity	**881,860**

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

Amortised cost securities whose total carrying amount is TL 1,065,290 as at 31 December 2018 (31 December 2017: TL 181,985) are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

Amortised cost securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 730,632 (31 December 2017: TL 525,363).

The movements in securities at amortised cost as at 31 December 2018 and 2017 are as follows:

	31 December 2018
Balance at 1 January	881,860
Effect of Reclassifications and Measurements in accordance with IFRS 9 (*)	1,666,666
Foreign Exchange Differences in Monetary Items	904,019
Disposals/redemption	-
Change in amortised cost (-)	25,485
Expected credit losses (-)	436
Total securities at amortised cost	**3,426,624**

(*) Explained in Note 2, footnote 2.26.

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

NOTE 11 - INVESTMENT SECURITIES (Continued)

(ii) Investment securities at amortised cost (continued)

	31 December 2017
Balance at 1 January	-
Effect of Reclassifications and Measurements in accordance with IFRS 9 (*)	888,493
Foreign Exchange Differences in Monetary Items	
Disposals/redemption	-
Change in amortised cost (-)	6,633
Total securities held-to-maturity	**881,860**

NOTE 12 - INTANGIBLE ASSETS

Carrying value and accumulated depreciation of intangible assets at the beginning and at the end of the period

	31 December 2018	31 December 2017
Cost	171,245	153,084
Accumulated amortisation	(70,365)	(60,673)
Net book amount	**100,880**	**92,411**

Movements of intangible assets are as follows:

31 December 2018 (*)

	Goodwill	Rights and Licenses	Software	Other	Total
Cost					
At 1 January	**49,017**	**78,665**	**23,645**	**1,757**	**153,084**
Additions	-	6,435	11,967	-	18,402
Disposals	-	-	-	241	241
At 31 December	**49,017**	**85,100**	**35,612**	**1,516**	**171,245**
Accumulated amortisation					
At 1 January	**-**	**(45,422)**	**(15,251)**	**-**	**(60,673)**
Amortisation charge (Note 28)	-	(3,478)	(6,448)	-	(9,926)
Disposals	-	-	-	234	234
At 31 December	**-**	**(48,900)**	**(21,699)**	**234**	**(70,365)**
Net carrying amount at 31 December	**49,017**	**36,200**	**13,913**	**1,750**	**100,880**

31 December 2017 (*)

	Goodwill	Rights and Licenses	Software	Other	Total
Cost					
At 1 January	**49,017**	**71,940**	**15,891**	**1,757**	**138,605**
Additions	-	6,725	7,754	-	14,479
Disposals	-	-	-	-	-
At 31 December	**49,017**	**78,665**	**23,645**	**1,757**	**153,084**
Accumulated amortisation					
At 1 January	**-**	**(42,490)**	**(9,908)**	**-**	**(52,398)**
Amortisation charge (Note 28)	-	(2,932)	(5,343)	-	(8,275)
Disposals	-	-	-	-	-
At 31 December	**-**	**(45,422)**	**(15,251)**	**-**	**(60,673)**
Net carrying amount at 31 December	**49,017**	**33,243**	**8,394**	**1,757**	**92,411**

(*) The group has no internally generated intangible asset.

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

NOTE 12 - INTANGIBLE ASSETS (Continued)

Group has TL 49,017 goodwill in consolidated financial statements as of balance sheet date (31 December 2017: TL 49,017).

Goodwill is the amount that exceeds the cost of buying of fair value expressed as the amount of the group share in net identifiable assets of the Group's purchased subsidiaries.Annual impairment test is performed for goodwill every year and shown as deducting accumulated impairment from cost of goodwill. Provision for impairment on goodwill is not reversed.

As a result of the disposal of the business that gain or loss occurs includes the carrying amount goodwill related to disposed business.

Goodwill is distrubuted to cash generating units for impairment test. Distributions are made to benefit from the business combination in which the goodwill arose expected to cash-generating units or groups. The recoverable amount of the cash-generating unit is determined based on value in used calculations. These calculations require the use of estimates.

In accordance with the Share Transfer Agreement signed between Anadolu Endüstri Holding A.Ş (AEH) and Alternatifbank A.Ş. and the Banking Regulation and Supervision Agency's authorization numbered 5558 dated 24 October 2013, Alternatifbank A.Ş. purchased 2,727,259,500 shares which is 95.8% of Alternatif Finansal Kiralama ("Alternatif Lease"), the associate of AEH, with a consideration amount of TL 115,585 and 115,488,748 shares from other shareholders with a consideration amount of TL 4,894. The Bank has recognised TL 49,017 goodwill and TL 1,757 intangible assets on this transaction.

The valuation of the fair value of the equity of A Lease is made by the Bank in the current year. Discounted cash flow method was used for determining fair value by using 5 year business plan prepared by management of the Company. Growing the business plan of the A Lease stems from the company's opportunities in the sector in which it operates and new customer acquisitions. The important assumptions about the calculating recoverable amount are discount rates and terminal growth rates. The discount rate used in the calculation is 16.9% and terminal growth rate is 16.2%.

NOTE 13 - PROPERTY AND EQUIPMENT

	31 December 2018	**31 December 2017**
Cost	353,658	121,117
Accumulated depreciation and impairment	(70,297)	(82,606)
Net carrying amount	**283,361**	**38,511**

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

NOTE 13 - PROPERTY AND EQUIPMENT (Continued)

31 December 2017	**Real Estates**	**Motor Vehicles**	**Other Tangible Assets**	**Total**
Cost	426	28	120,663	121,117
Accumulated Depreciation (-)	(8)	(28)	(82,570)	(82,606)
Net carrying amount	**418**	**-**	**38,093**	**38,511**
31 December 2018				
Net Book Value at Beginning of the Period	418	-	38,093	38,511
Additions	210,146	-	25,090	235,236
Disposals Cost	533	-	29,910	30,443
Disposals Depreciation (-)	-	-	(24,736)	(24,736)
Fair Value Difference(*)	27,782	-	-	27,782
Depreciation (-)	(2,361)	-	(10,100)	(12,461)
Cost at Period End	237,821	28	115,809	353,658
Accumulated Depreciation at Period End (-)	(2,369)	(28)	(67,900)	(70,297)
Closing Net Carrying Amount at Period End	**235,452**	**-**	**47,909**	**283,361**

(*) The Group started to recognize head-office building under the property and equipment with its revalued amount instead of cost value in accordance with "IAS 16 - Property, Plant and Equipment" as at 31 December 2018. The revaluation difference arising from the valuation made by the appraisal firms authorized by CMB and BRSA is recognized in "Revaluation Surplus" line under the Shareholders' Equity.

31 December 2016	**Real Estates**	**Motor Vehicles**	**Other Tangible Assets**	**Total**
Cost	41	28	113,011	113,080
Accumulated Depreciation (-)	7	28	76,371	76,406
Net carrying amount	**34**	**-**	**36,640**	**36,674**
31 December 2017				
Net Book Value at Beginning of the Period	34	-	36,640	36,674
Additions	572	-	13,011	13,583
Disposals Cost	187	-	5,360	5,547
Disposals Depreciation (-)	-	-	(5,102)	(5,102)
Impairment	-	-	-	-
Depreciation (-)	(1)	-	(11,300)	(11,301)
Cost at Period End	426	28	120,663	121,117
Accumulated Depreciation at Period End (-)	(8)	(28)	(82,570)	(82,606)
Closing Net Carrying Amount at Period End	**418**	**-**	**38,093**	**38,511**

As at 31 December 2017, there is no provision for impairment on property and equipment.

NOTE 14 - OTHER ASSETS

	31 December 2018	**31 December 2017**
Collaterals given for derivative transactions	306,514	108,007
Assets held for sale	186,675	152,218
Prepaid expenses	61,760	69,080
Pos Receivables	31,481	39,738
Others	30,433	15,102
Total	**616,863**	**384,145**

Assets held for resale represents mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law.

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

NOTE 15 - DEPOSITS FROM BANKS

	31 December 2018			31 December 2017		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency:						
Domestic banks	8	201	209	-	65,720	65,720
Foreign banks	820	5,630	6,450	22,835	380,638	403,473
Funds deposited under repurchase agreements	-	684,226	684,226	-	594,470	594,470
Subtotal	**828**	**690,057**	**690,885**	**22,835**	**1,040,828**	**1,063,663**
TL:						
Domestic banks	102	8,231	8,333	107	15,314	15,421
Foreign Banks	1,049	135,281	136,330	1,768	28,628	30,396
Funds deposited under repurchase agreements	-	3,302	3,302	-	30,678	30,678
Subtotal	**1,151**	**146,814**	**147,965**	**1,875**	**74,620**	**76,495**
Total	**1,979**	**836,871**	**838,850**	**24,710**	**1,115,448**	**1,140,158**

NOTE 16 - DEPOSITS FROM CUSTOMERS

	31 December 2018			31 December 2017		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	92,645	1,966,076	2,058,721	56,171	1,026,258	1,082,429
Commercial deposits	277,138	4,349,334	4,626,472	207,970	4,624,084	4,832,054
Subtotal	**369,783**	**6,315,410**	**6,685,193**	**264,141**	**5,650,342**	**5,914,483**
TL deposits:						
Saving deposits	47,149	4,395,554	4,442,703	50,679	2,535,849	2,586,528
Commercial deposits	272,813	2,034,689	2,307,502	100,010	2,117,928	2,217,938
Public sector deposits	30,031	-	30,031	7,939	-	7,939
Subtotal	**349,993**	**6,430,243**	**6,780,236**	**158,628**	**4,653,777**	**4,812,405**
Total	**719,776**	**12,745,653**	**13,465,429**	**422,769**	**10,304,119**	**10,726,888**

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

NOTE 17 – LOANS AND ADVANCES FROM BANKS AND OTHER INSTITUTIONS AND SUBORDINATED LIABILITIES

1. Loans and advances from banks and other institutions

	31 December 2018	31 December 2017
Foreign institutions and banks		
Syndication loans	921,322	869,283
Subordinated liabilities	1,863,654	1,330,146
Other	3,262,852	2,591,403
Total foreign	**6,047,828**	**4,790,832**
Domestic banks	686,353	558,359
Total domestic	**686,353**	**558,359**
Total	**6,734,181**	**5,349,191**

Reconciliation of funds borrowed as follows:

	31 December 2018
Balance at beginning of the year	4,019,045
Proceeds from funds borrowed	2,905,463
Payments for funds borrowed	(2,349,197)
Effects of foreign exchange-rate	295,215
Balance at 31 December 2018	**4,870,527**

2. Subordinated liabilities

The details of subordinated liabilities of the Bank as of 31 December 2018 are presented in the table below:

Lender	Amount USD	Amount TL	Opening Date	Maturity	Interest Rate (%)
United Arab Bank, National Bank of Oman	USD 50,000	265,173	30 June 2015	10 years+1 day	Libor + 6.00
The Commercial Bank (P.S.Q.C)	USD 300,000	1,598,481	15 April 2016	10 years+1 day	8.75

NOTE 18 - DEBT SECURITIES ISSUED

	31 December 2018	31 December 2017
Debt securities at amortised cost-fixed interest rate	1,896,633	1,197,506
Debt securities at amortised cost-variable interest rate	-	-
Total	**1,896,633**	**1,197,506**

The Bank issued 250 million euro-bond with five year maturity and coupon rate of 3.13%, all sold to investors in overseas markets on 21 July 2014.

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

NOTE 19 - TAXATION

	31 December 2018	31 December 2017
Current tax expense	-	(31,355)
Deferred tax (expense)/income	(33,790)	26,222
	(33,790)	**(5,133)**

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

In Turkey, the corporate tax rate is 20% since January 1, 2006. With the Law, No. 7061 Amendment of Certain Taxes and Laws and Other Acts promulgated in the Official Gazette, 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% (31 December 2017: 20%).

Payments will be carried out in single instalment until the end of the month in which the tax return is to be filed.

Dividends paid to non-resident corporations, which have a fixed place of business or permanent representative in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax, Provisions of bilateral treaties are reserved.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their quarterly determined corporate income. Advance tax return is filed by the 14th of the second month following the each quarterly period and is payable on the 17th of the same month, Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to offset against other liabilities to the government.

Reconciliation of income tax expense:

	31 December 2018	31 December 2017
Profit before tax	**238,688**	**54,275**
At Turkish statutory income tax rate of (22%-20%)	(47,738)	(10,855)
Disallowed expenses	(30,157)	(35,665)
Other non-taxable items	58,858	36,805
Other	(14,754)	4,582
Income tax expense	**(33,790)**	**(5,133)**

In Turkey, there is no procedure for a final and definitive agreement on tax assessments, Tax authorities have the right to audit tax declarations and accounting records for 5 years, and may issue re-assessment based on their findings for tax purposes.

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

75% of the capital gains of corporations' from sale of participation shares and property (With the Law, No. 7061 Amendment of Certain Taxes and Laws and Other Acts promulgated in the Official Gazette, dated 5 December 2017, the exemption applied as 75% was decreased to 50% to be effective as of the promulgation of the Law for the mentioned sale of properties.) which have been in their assets at least for two years is exempt from corporate tax provided that this amount is kept in a special reserve account in the liabilities side of the statement of financial position for 5 years.

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

NOTE 19 - TAXATION (Continued)

Deferred taxes

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 (31 December 2017: 20%).

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

	31 December 2018	31 December 2017
Profit before tax after monetary gain		
Deferred Tax Assets/(Deferred Tax Liabilities)		
Tangible Assets Base Differences	(3,188)	(1,743)
Provisions	10,209	40,010
Valuation of Financial Assets	136,562	27,731
Deferred Commission Income	6,337	5,647
Investment Incentive	5,169	5,262
Tax Losses	17,858	1,033
Other	(52)	(3,379)
Net Deferred Tax Assets	**172,895**	**74,561**

The movements of deferred income taxes at 31 December were as follows:

	31 December 2018	31 December 2017
1 January	**187,023**	**79,436**
Charge for the year	(14,128)	(4,875)
- *Profit and loss*	(33,790)	26,222
- *Deferred Tax Recognized Under Shareholders' Equity*	33,084	-
- *Other comprehensive income*	(13,422)	(31,097)
31 December	**172,895**	**74,561**

At 31 December 2018, there are no deductible temporary differences for which no deferred tax asset is recognised in the statement of financial position (31 December 2017: None).

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

NOTE 20 - PROVISIONS

	31 December 2018	31 December 2017
Provision for losses on credit related commitments	55,828	33,044
Other legal provision	15,472	12,582
Other	20,832	15,002
Total	**92,132**	**60,628**

Other legal provisions

At 31 December 2018 the Group is involved in number of legal disputes, The Group's lawyers advise that, owing to developments in some of these cases; it is probable that the Group will be found liable. Therefore, the management has recognised a provision of TL 15,472 (31 December 2016: TL 12,582) as the best estimate of the amount to settle these potential obligations.

NOTE 21 - RESERVE FOR EMPLOYEE BENEFITS

	31 December 2018	31 December 2017
Reserve for defined benefit obligation	8,705	8,550
Balance at the end of the period	**8,705**	**8,550**

Under the Turkish Labour Law, the Parent Bank and its subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires. There are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of full TL 5,434.42 (31 December 2017: full TL 4,732.48) for each year of service.

Movement of reserve for defined benefit obligation is as follows:

	31 December 2018	31 December 2017
Prior Period Ending Balance	**8,550**	**7,722**
Current Period Service Cost	1,467	1,101
Interest Cost	978	814
Paid Compensation	(3,349)	(3,039)
Termination Cost	2,153	1,096
Actuarial Loss/(Gain) (*)	(1,094)	856
Balance at the end of the period	**8,705**	**8,550**

(*) Actuarial differences are recognized in other comprehensive income.

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

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

NOTE 21 - RESERVE FOR EMPLOYEE BENEFITS (Continued)

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

	31 December 2018	31 December 2017
Discount rate (%)	4.50	4.72
The probability of retirement (%)	83.33	83.33

In addition, the Group has accounted bonus provision amounting to TL 19,100 (31 December 2017: TL 14,017) and for unused vacation rights provision amounting to TL 3,025 as 31 December 2018 (31 December 2017: TL 2,818).

NOTE 22 - OTHER LIABILITIES

	31 December 2018	31 December 2017
Blocked accounts	207,727	158,846
Cheques in collection	174,316	19,656
Taxes other than income and withholdings	35,681	20,303
Collaterals received for derivatives	80,543	40,477
Bonus accrual for personnel	19,100	14,017
Vacation pay liability	3,168	2,818
Cash collaterals	219,810	42,200
Other	63,204	90,132
Total	**803,549**	**388,449**

NOTE 23 - SHARE CAPITAL AND SHARE PREMIUM

The historic amount of share capital of the Company consists of 1,167 million (31 December 2017: 980 million) authorised shares with a nominal value of TL 1 each. The Company's authorised capital amounts to TL 1,167,000 (31 December 2017: TL 980,000).

With the decision of number 1 of the Board of Directors dated on 9 January 2018 and with the approval of BRSA dated on 23 January 2018, the capital increase is registered in Commercial Registry Gazette number of 9512 and dated on 8 February 2018 and the capital is increased from TL 980,000 to TL 1,167,000. In this respect, The Commercial Bank (P.S.Q.C) was included in the capital increase with TL 187,000 by cash and this amount transferred it to the capital account.

	31 December 2018		**31 December 2017**	
Shareholders	**Participation rate (%)**	**TL thousand**	**Participation rate (%)**	**TL thousand**
The Commercial Bank (P.S.Q.C.)	100	1,167,000	100	980,000
Historical share capital	**100**	**1,167,000**	**100**	**980,000**
Share premium		54		54
Total share capital and share premium		**1,167,054**		**980,054**

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

NOTE 24 - RETAINED EARNINGS AND OTHER RESERVES

	31 December 2018	31 December 2017
Legal reserves	34,143	30,102
Fair value reserve	(52,783)	(108,651)
Hedge reserve	(3,884)	-
Revaluation surplus	27,782	-
Other reserve	289,095	264,195
Total other reserves	**294,353**	**185,646**
Retained earnings	**242,005**	**467,619**

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

Legal Reserve

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

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

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

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

Fair value reserve

Information on fair value reserve is as follows:

	31 December 2018		31 December 2017	
	TL	**FC**	**TL**	**FC**
From Investments in Associates, Subsidiaries, and Joint Ventures			-	-
Valuation Difference	(56,667)	-	(77,419)	(31,232)
Foreign Currency Difference			-	-
Total	**(56,667)**	**-**	**(77,419)**	**(31,232)**

Other Reserve

As of 31 December 2018, The Group, has started to follow the subordinated loan which was obtained from its controlling shareholder The Commercial Bank (P.S.Q.C.) amounting to USD 75 million and classified to the equity account in 31 July 2017, as Turkish Liras, in accordance with the "Effects of Foreign Exchange Rate Changes Accounting Policy" and using 31 July 2017 closing dollar rate.

According to the "TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors", the foreign exchange differences amounting to TL 18,698 between 31 July 2017 and 31 December 2017, transferred to the prior year profit or loss. Interest accruals of subordinated loan amounting to TL 11,920 in 2017 also transferred to the prior year profit or loss in accordance with TAS 8.

The deferred tax asset resulting from the foreign exchange difference of the subordinated loans and is accounted under equity is TL 24,900 and the interest payments transferred to the prior period profit or loss is TL 37,199.

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

NOTE 25 - NET INTEREST INCOME

	1 January- 31 December 2018	1 January- 31 December 2017
Interest income on:		
Loans and advances to customers	2,045,326	1,243,129
Investment securities	162,342	127,728
Due from banks	193,822	87,852
Financial assets at fair value through profit or loss	4,752	1,370
Other	3,565	3,100
Total interest income	**2,409,807**	**1,463,179**
Interest expense on:		
Due to customers	1,221,848	543,765
Repurchase agreements	33,254	16,165
Deposits from banks	128,335	79,550
Debt securities issued	130,018	56,721
Funds borrowed	351,848	243,195
Other	2,264	4,805
Total interest expense	**1,867,567**	**944,201**
Net interest income	**542,240**	**518,978**

NOTE 26 - NET FEE AND COMMISSION INCOME

	1 January- 31 December 2018	1 January- 31 December 2017
Fee and commission income on:		
Letter of guarantee	51,465	35,422
Insurance	17,098	13,934
Expertise	6,707	2,294
Money transfers	1,942	1,703
Account management	1,789	1,172
Brokerage	1,876	855
Other	15,519	19,166
Total fee and commission income	**96,396**	**74,546**
Fee and commission expense on:		
Debit cards	11,562	5,491
FX transactions	8,499	6,815
Correspondent banks	2,599	1,557
Effective and future transactions	1,443	461
Money transfers	990	252
CBRT Interbank money market transactions	726	1,544
Other	2,620	5,188
Total fee and commission expense	**28,439**	**21,308**
Net fee and commission income	**67,957**	**53,238**

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

NOTE 27 - TRADING GAINS AND LOSSES, NET

	1 January- 31 December 2018	1 January- 31 December 2017
Trading securities	-	244
Derivative financial transactions	(24,209)	(10,191)
Net (Loss)/Income	**(24,209)**	**(10,435)**

Net trading income from derivative financial instruments includes gains and losses from spot and forward contracts, options, futures, and swaps due to changes in interest rates.

NOTE 28 - OTHER OPERATING EXPENSES

	1 January- 31 December 2018	1 January- 31 December 2017
Staff costs	**192,958**	**164,377**
Depreciation on property and equipment (Note 13)	12,461	11,301
Amortisation of intangible assets (Note 12)	9,926	8,274
Depreciation and amortisation	**22,387**	**19,575**
Operational lease expenses	34,533	31,859
Sundry taxes	17,595	12,209
Marketing and advertisement costs	9,324	4,563
Repair and maintenance expenses	1,748	1,131
Losses on sale of assets	7,560	2,834
Other	57,764	49,650
Administrative expenses	**128,524**	**102,246**
Total	**343,869**	**286,198**

Reserve for defined benefit obligation, accrual for unused vacation rights and provision for personnel bonus are included in the staff costs in the table above.

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

NOTE 29 - ASSETS PLEDGED AND RESTRICTED

The Group has the following assets pledged as collateral:

	31 December 2018		31 December 2017	
	Assets	Related liability	Assets	Related liability
Financial assets at fair value through profit or loss(Note 9)			-	-
Investment securities (Note 11)	1,065,290	687,528	550,825	625,148
Other assets pledged (Note 14) (*)	306,514	80,543	108,007	38,974
Total	**1,371,804**	**768,071**	**658,832**	**664,122**

(*) Other assets pledged are the collaterals given to the counter parties of the derivative financial instruments and other collaterals given.

Held for trading, available-for-sale and held-to-maturity securities whose total carrying amount is TL 1,065,290 as of 31 December 2018 (31 December 2017: TL 550,825) are pledged to banks and other financial institutions against funds obtained under repurchase agreements (Note 15 and Note 17).

Total amount of funds obtained under repurchase agreements is TL 684,226 of 31 December 2018 (31 December 2017: TL 594,614).

Investment securities at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 772,147 (31 December 2017: TL 24,611).

At 31 December 2018, the Group's reserve deposits that are not available to finance the Group's day-to-day operations amount to TL 755,100 (31 December 2017: TL 1,514,661).

NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 31 December 2018 and 2017.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 20).

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

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

NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Credit related commitments

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

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

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

The following table shows the outstanding credit related commitments of the Group:

31 December 2018 (1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	209,363	336,125	192,473	737,961
Letter of guarantees	4,964,583	3,473	3,298	54	4,971,408
Acceptance credits	-	14,575	4,348	1,599	20,522
Other commitments	567,616	-	-	-	567,616
Total	**5,532,199**	**227,411**	**343,771**	**194,126**	**6,297,507**

31 December 2017 (1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	163,973	522,686	123,407	810,066
Letter of guarantees	6,043	887,184	1,955,634	270,765	3,119,626
Acceptance credits	-	6,825	1,185	1,554	9,564
Other commitments	692,461	-	-	-	692,461
Total	**698,504**	**1,057,982**	**2,479,505**	**395,726**	**4,631,717**

(1) Based on original maturities.

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

NOTE 31 - SEGMENT REPORTING

The Group is organized into two main business segments which are organized and managed separately according to the nature of the products and services provided.

31 December 2018	Commercial Banking	Investment Banking	Other	Group
Net interest income [1]	657,566	(115,326)	-	542,240
Net fees and commission income and other operating income	87,693	(19,736)	-	67,957
(Provisions for) / recoveries from impairment loan receivables [1]	(162,363)	(53)	-	(162,416)
Trading gain / loss	(6,935)	141,711	-	134,776
Other operating expenses [1]	(318,602)	(25,267)	-	(343,869)
Profit before income tax	**257,359**	**(18,671)**	**-**	**238,688**
Tax provision				(33,790)
Profit after income tax	**257,359**	**(18,671)**	**-**	**204,898**
Non-controlling interest	-	-	-	1
Net profit	**257,359**	**(18,671)**	**(33,790)**	**204,898**
Asset and liabilities				
Segment assets	17,333,130	7,326,500	1,061,420	25,721,050
Total assets	**17,333,130**	**7,326,500**	**1,061,420**	**25,721,050**
Segment liabilities	15,300,347	4,292,600	4,424,675	24,017,622
Unallocated liabilities	204,160	31,666	1,467,602	1,703,428
Total liabilities	**15,504,507**	**4,324,266**	**5,892,277**	**25,721,050**

[1] Classification differences with income statement exist since business reporting of the Bank was used.

31 December 2017	Commercial Banking	Investment Banking	Other	Group
Net interest income [1]	540,405	(21,427)	-	518,978
Net fees and commission income and other operating income	54,306	2,733	-	57,039
(Provisions for)/recoveries from impairment loan receivables [1]	(165,761)	(9,229)	-	(174,990)
Trading gain/loss	(6,264)	(54,290)	-	(60,554)
Other operating expenses [1]	(274,907)	(11,291)	-	(286,198)
Profit before income tax	**147,779**	**(93,504)**	**-**	**54,275**
Tax provision	-	-	-	(5,133)
Profit after income tax	**147,779**	**(93,504)**	**-**	**49,142**
Non-controlling interest	-	-	-	2
Net profit	**147,779**	**(93,504)**	**(5,133)**	**49,142**
Asset and liabilities				
Segment assets	14,554,529	5,270,779	846,386	20,671,694
Total assets	**14,554,529**	**5,270,779**	**846,386**	**20,671,694**
Segment liabilities	12,557,334	3,725,743	2,755,283	19,038,360
Unallocated liabilities	109,595	20,545	1,503,194	1,633,334
Total liabilities	**12,666,929**	**3,746,288**	**4,258,477**	**20,671,694**

[1] Classification differences with income statement exist since business reporting of the Bank was used.

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

NOTE 32 - RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is controlled by Commercial Bank of Qatar owning 100.00% of the ordinary shares.

The Parent Bank's agency agreement with Alternatif Yatırım A.Ş. is cancelled on 31 December 2016.

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

(i) Balances with related parties:

	31 December 2018		31 December 2017	
	Total	**Share in total %**	**Total**	**Share in total %**
Loans and advances to customers, net	151,800	0.59	113,277	0.88
Total assets	**151,800**		**113,277**	
Deposits from customers	37,278	0.14	74,207	0.69
Total liabilities	**37,278**		**74,207**	
Credit related commitments	170,025	2.70	249,646	5.39
Total commitments and contingent liabilities	**170,025**		**249,646**	

(ii) Transactions with related parties:

	31 December 2018		31 December 2017	
	Total	**Share in total %**	**Total**	**Share in total %**
Interest income on loans and advances to customers	6,231	0.25	3,085	0.27
Commission income on credit related commitments	24,727	1.0	60	-
Total interest and fee income	**30,958**		**3,145**	
Interest expense on deposits	59,691	3.15	37,424	6.00
Other operating expense	-	-	-	-
Total interest and fee expense	**59,691**		**37,424**	**-**

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

Salaries and other benefits paid to the Group's key management approximately amount to TL 21,892 for the year ended 31 December 2018 (31 December 2017: TL 20,802).

NOTE 33 - EVENTS AFTER THE REPORTING PERIOD

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 91 days maturity distributed coupon which issued on 9 January 2019 through sales to qualified investors without offering to public was realized as TL 145,000 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 91 days maturity distributed coupon which issued on 4 February 2019 through sales to qualified investors without offering to public was realized as TL 51,601 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 69 days maturity distributed coupon which issued on 14 February 2019 through sales to qualified investors without offering to public was realized as TL 49,950 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 92 days maturity distributed coupon which issued on 18 February 2019 through sales to qualified investors without offering to public was realized as TL 27,650 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 70 days maturity distributed coupon which issued on 26 February 2019 through sales to qualified investors without offering to public was realized as TL 40,493 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 90 days maturity distributed coupon which issued on 1 March 2019 through sales to qualified investors without offering to public was realized as TL 28,939 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 67 days maturity distributed coupon which issued on 4 March 2019 through sales to qualified investors without offering to public was realized as TL 32,907 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 63 days maturity distributed coupon which issued on 6 March 2019 through sales to qualified investors without offering to public was realized as TL 99,698 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

With the permission of the Capital Markets Board dated 5 July 2018 and numbered 28/806, the nominal amount of the 71 days maturity distributed coupon which issued on 6 March 2019 through sales to qualified investors without offering to public was realized as TL 1,468 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

NOTE 33 - EVENTS AFTER THE REPORTING PERIOD (Continued)

With the Board of Directors resolution dated 13 March 2019 and with the approval of BRSA dated on 27 March 2019, the capital increase is registered in Commercial Registry Gazette number of 9806 and dated on 10 April 2019 and the capital is increased from TL 1,167,000 to TL 1,439,725. In this respect, The Commercial Bank (P.S.Q.C) was included in the capital increase with TL 272,725 by cash and this amount transferred it to the capital account.

İzzat Dajani and Turgay Gönensin have resigned from Board of Directors. At 28 March 2019, Kimberley Ann Reid has been appointed as a Board Member.

With the Board of Directors resolution dated 11 April 2019, Corporate Banking, Commercial and SME Banking Executive Vice President Yeşim Şimşek has been appointed as the Sales and Marketing Executive Vice President.

With the Board of Directors resolution dated 11 April 2019, Operations Executive Vice President Suat Çetin has resigned from his duty and Esra Beyzadeoğlu has been appointed as the Operations Executive Vice President in addition to her existing responsibilities.