Fibabanka A.Ş. and Its Subsidiary

Consolidated financial statements at December 31, 2017 together with independent auditor's report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Fibabanka Anonim Şirketi

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Fibabanka Anonim Şirketi (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
Impairment on Loans and Advances	
Impairment of loans and receivables is a key area of judgement for the management. There is a potential risk of provision that has been provided or that will be provided may not meet the requirements of IFRS. Aforementioned risk is a failure in identifying the loans and receivables which are impaired and not providing the adequate provision for these impaired loans. Therefore, impairment of the loans and receivables is considered as a key audit matter. Related explanations regarding the financial statement relating to the impairment of loans and advances have been disclosed in "Note 10".	Our audit procedures included among others, selecting samples of loans and receivables based on our judgement in order to identify whether there is objective evidence that impairment exists on these loans and receivables and the assess the adequacy of provision for those loans and receivables in accordance with the requirements of IFRS. In addition our audit procedures include assessing the relevant controls over granting, booking, monitoring and derecognition and testing the design and operational effectiveness of the key controls in place for identifying impaired loans and the calculation of provisions which were provided for them.
Derivative Financial Instruments	
Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency options, currency futures and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in "Note 11" and "Note 21". Fair value of the derivative financial instruments is determined by selecting the most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered as a key audit matter due to the subjectivity in the estimates, assumptions and judgements used.	Our audit procedures included among others include reviewing fair valuation policies adopted by Group Management, re-calculation of fair valuations on sample basis by our experts, assessing the estimations and judgements used in valuation and testing the desing and operating effectiveness of the key controls in the process for fair value determination.

Other Matter

The consolidated financial statements of the Bank and its subsidiaries for the year ended December 31, 2016 were audited by another audit firm, which expressed a qualified opinion in their reports dated May 11, 2017 referring to a free reserve amounting to TL 36,000 thousands. However based on our initial audit procedures performed in accordance with "ISA 510 - Initial Audit Engagements - Opening Balances" it has been identified that no such reserve has been accounted in the consolidated financial statements as of December 31, 2016, therefore our auditors report on financial statements as of December 31, 2017 is not qualified for the effects of this matter on the corresponding figures.

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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 IFRSs, 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.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

The partner in charge of the audit resulting in this independent auditor's report is Damla Harman.

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

Damla Harman, SMMM
Partner

30 May 2018
İstanbul, Türkiye

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Consolidated Statement of Financial Position as at 31 December 2017
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

	Notes	31 December 2017	31 December 2016
Assets			
Cash and balances with Central Bank	7	2,487,256	1,937,934
Due from banks		696,350	333,082
-Due from banks	8	*320,016*	*58,380*
-Money market placements	8	*376,334*	*274,702*
Financial assets at fair value through profit and loss		743,877	497,685
-Debt instruments	*9*	*55,376*	*82,681*
-Derivatives held for trading purpose	*9*	*688,501*	*415,004*
Financial assets available for sale	9	766,163	887,226
Loans and advances to customers	10	14,802,842	11,345,176
Derivative Financial Assets Held For Hedging	11	17,902	-
Property and equipment	13	193,057	187,239
Intangible assets	14	5,949	3,980
Deferred tax assets	22	58,871	14,322
Other assets	12	104,548	101,449
Total Assets		**19,876,815**	**15,308,093**
Liabilities			
Derivatives held for trading purpose	9	749,590	383,459
Deposits from banks		1,081,350	1,165,633
-Deposits from banks	15	*601,469*	*481,805*
-Obligations under repurchase commitments	15	*479,880*	*683,828*
Borrowings from banks	18	2,084,851	1,536,663
Deposits from customers	16	11,666,436	9,134,933
Securities issued	19	1,255,066	991,975
Subordinated loans	20	1,194,561	397,278
Derivative Financial Liabilities Held For Hedging	21	3,664	-
Other liabilities and provisions	17	448,072	313,725
Total Liabilities		**18,483,589**	**13,923,666**
Equity			
Share capital	23	943,684	943,684
Share premium	23	128,678	128,678
Items that may be reclassified subsequently to profit or loss			
-Unrealized gains / (losses) on available-for-sale investments, net of tax	25	(10,899)	(20,254)
Items that will not be reclassified subsequently to profit or loss			
-Actuarial losses on employee termination benefits		(4,636)	(3,003)
Retained earnings	24	336,345	335,269
Equity attributable to owners of the bank		**1,393,172**	**1,384,374**
Non-controlling interest		54	53
Total Shareholders' Equity		**1,393,226**	**1,384,427**
Total Liabilities and Shareholders' Equity		**19,876,815**	**15,308,093**

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

Consolidated Statement of Profit or Loss as at 31 December 2017

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

	Notes	1 January – 31 December 2017	1 January – 31 December 2016
Interest income	28	2,068,231	1,361,232
Interest expense	28	(1,465,856)	(829,182)
Net interest income		**602,375**	**532,050**
Fees and commission income	29	78,578	49,352
Fees and commission expenses	29	(33,086)	(21,889)
Net fee and commission income		**45,492**	**27,463**
Net trading income	30	34,821	26,706
Other operating income	31	32,370	40,417
		67,191	**67,123**
Operating income		**715,058**	**626,636**
Personnel expenses	32	(210,005)	(159,688)
Depreciation and amortisation	13,14	(14,118)	(15,771)
Impairment reversals /(losses) on loans and advances to customers	10	(359,953)	(185,788)
Other impairment losses		--	--
Other expenses	33	(130,198)	(106,158)
Profit before income tax		**784**	**159,231**
Current tax income/(expense)	21	(46,186)	(40,201)
Deferred tax income/(expense)		46,479	7,774
Net Income for the period		**1,077**	**126,804**
Net Income attributable to:			
Equity holders of the Bank		1,076	126,803
Non-controlling interests		1	1
		1,077	**126,804**

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

Consolidated Statement of Other Compehensive Income as at 31 December 2017

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

	1 January-31 December 2017	1 January-31 December 2016
Profit for the year	**1,077**	**126,804**
Items that maybe reclassified subsequently to profit or loss		
-Unrealized gains / (losses) on available-for-sale investments, gross	*11,694*	*(13,159)*
-Tax effect of unrealized gains / (losses) on available-for-sale investments	*(2,339)*	*2,632*
Items that will not be reclassified subsequently to profit or loss		
-Actuarial losses on employee termination benefits	*(2,041)*	*(709)*
-Tax effect of actuarial losses on employee termination benefits	*408*	*142*
Other comprehensive income / (expense) for the year, net of tax	**7,722**	**(11,094)**
Total comprehensive income for the year	**8,799**	**115,710**
Attributable to:		
Equity Holders of the Bank	8,798	115,709
Non – controlling interest	1	1

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

Consolidated Statement of Changes in Equity as at 31 December 2017

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

	Notes	Share Capital	Share premium	Retained earnings	Items that maybe reclassified subsequently to profit or loss	Items that will not be reclassified subsequently to profit or loss	Non-controlling Interest	Total
					Unrealized losses on available for sale investments	**Actuarial gains / (losses)**		
Balances at 1 January 2016		**850,038**	**73,379**	**208,466**	**(9,727)**	**(2,436)**	**52**	**1,119,772**
Share capital increase	23	93,646	55,299	--	--	--	--	148,945
Total comprehensive income for the year		**--**	**--**	**126,803**	**(10,527)**	**(567)**	**1**	**115,710**
Additions to unrealized gains / (losses) on available-for-sale investments, net of deferred tax		--	--	--	(10,527)	--	--	(10,527)
Actuarial losses on employee termination benefits, net of tax		--	--	--	--	(567)		(567)
Net profit for the year		--	--	126,803	--	--	1	126,804
Balances at 31 December 2016		**943,684**	**128,678**	**335,269**	**(20,254)**	**(3,003)**	**53**	**1,384,427**
Share capital increase	23	--	--	--	--	--	--	--
Total comprehensive income for the year		--	--	**1,076**	**9,355**	**(1,633)**	**1**	**8,799**
Additions to unrealized gains / (losses) on available-for-sale investments, net of deferred tax		--	--	--	9,355	--	--	9,355
Actuarial losses on employee termination benefits, net of deferred tax		--	--	--	--	(1,633)	--	(1,633)
Net profit for the year		--	--	1,076	--	--	1	1,077
Balances at 31 December 2017		**943,684**	**128,678**	**336,345**	**(10,899)**	**(4,636)**	**54**	**1,393,226**

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

Consolidated Statement of Cash Flows as at 31 December 2017

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

	Notes	1 January-31 December 2017	1 January-31 December 2016
Net profit/(loss) for the year		**1,077**	**126,804**
Adjustments for:			
Depreciation of property and equipment	13	11,073	12,165
Amortization of intangible assets	14	3,043	3,605
Impairment losses on loans and advances	10	359,953	185,788
Unearned revenue		6,541	(1,970)
Employment termination benefits	17	3,884	2,856
Unused vacation pay provision		48	(219)
Other provisions (net)		59	8,705
Bonus provision		7,200	7,896
Unrealized gains on financial assets/liabilities		9,355	4,459
Taxation	22	(293)	32,427
Operating profit before changes in operating assets/liabilities		**401,940**	**382,516**
Changes in operating assets and liabilities:			
Net increase in balances with banks and central bank		(316,874)	(223,909)
Net decrease in financial assets at fair value through profit & loss		47,924	(61,695)
Net increase in loans		(3,245,089)	(3,013,615)
Net increase in other assets		2,316	4,868
Net increase in deposits		2,484,531	2,325,903
Net increase in other taxes & liabilities		131,961	63,180
Employment termination benefits paid	17	(2,720)	(1,311)
Taxes paid		(46,966)	(48,896)
Bonuses paid		(6,085)	(6,800)
Net cash used in operating activities		**(549,062)**	**(579,759)**
Cash flow from investing activities:			
Purchase of available-for-sale securities		(95,050)	(563,427)
Proceeds from sale of available-for-sale securities		208,641	275,221
Purchase of property & equipment	13	(13,803)	(6,762)
Purchase of intangible assets	14	(5,012)	(2,220)
Net cash used in investing activities		**94,776**	**(297,188)**
Cash flow from financing activities:			
Proceeds from borrowing funding loans (net)		1,051,326	1,185,602
Proceeds from share certificates issued		--	148,945
Net cash provided by financing activities		**1,051,326**	**1,334,547**
Net (decrease)/increase in cash & cash equivalents		**597,040**	**457,600**
Cash & cash equivalents at the beginning of the year	7	**704,664**	**201,712**
Foreign exchange effect on cash and cash equivalents		(5,432)	45,352
Cash & cash equivalents at the end of the year	7	**1,296,272**	**704,664**

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

1. General Information

On 21 December 2001, Share Transfer Agreement was signed with Novabank S.A. for the sale of all shares of Sitebank A.Ş. under the control of the Savings Deposit Insurance Fund ("SDIF") and the sale transaction was approved by the decision of the Banking Regulation and Supervision Agency ("BRSA") No: 596 on 16 January 2002.

In the General Assembly held on 4 March 2003, the name of Sitebank A.Ş. was amended as BankEuropa Bankası A.Ş.

In the extraordinary General Assembly held on 28 November 2006, the name of Bank Europa Bankası A.Ş. was amended as Millennium Bank A.Ş.

On 10 February 2010, Banco Comercial Portugues S.A. and Credit Europe Bank N.V., which is an affiliate of Fiba Group, signed a share purchase agreement to transfer 95% of Millennium Bank A.Ş.'s shares to Credit Europe Bank N.V. and the legal approval process has been completed as of 27 December 2010. Credit Europe Bank N.V. is 100% owned by Credit Europe Group N.V. which is a banking group incorporated in Netherlands and an affiliate of Fiba Holding A.Ş.

In the extraordinary General Assembly held on 25 April 2011 the name of Millennium Bank A.Ş. has been amended as Fibabanka A.Ş. ("the Bank").

As of December 2012, Fiba Holding A.Ş. became the ultimate parent of the Bank after acquiring 97.6% of the shares from Credit Europe Bank N.V. on 3 December 2012 and 2.4% of the shares from Banco Comercial Portugues S.A. on 7 December 2012. There were sales of equity shares to the management of the Bank in 2013. Total share of the management is 0.6% as of 31 December 2017.

The Bank, applied to the BRSA on 14 January 2015 for permission of the subordinated loan provided from Fiba Holding A.Ş. in the amount of USD 50 million to be converted to share capital. Following the authorization of the BRSA on 4 March 2015, the Board of Directors decision was taken on 5 March 2015 regarding share capital increase of TL 128,860, TL 127,045 of the increase was provided by the subordinated loan granted by Fiba Holding A.Ş. which had been approved to be converted to capital and TL 1,815 of total capital was paid in cash by the other shareholders, capital increase was recognised in financial satements following the completion of the legal procedures on 7 May 2015.

The Bank's paid-in capital was increased by TL 168,655 in total on 23 December 2015 with equal contributions from International Finance Corporation ("IFC") and European Bank for Reconstruction and Development ("EBRD"). In addition, share issuance premium of TL 73,379 was recognised in the shareholders' equity.

The Parent Bank's paid-in capital amounting to TL 850,058 was increased to TL 943,684 on 7 September 2016 with the capital contribution of TurkFinance B.V. by TL 93,646. In addition, share issuance premium of TL 55,299 was recognised in the shareholders' equity.

As of 31 December 2017, the Bank's full paid in capital is TL 943,684.

As of 31 December 2017, the Bank has 80 domestic branches and its head office is located at the following address: Esentepe Mah. Büyükdere Cad. No: 129 Şişli / İstanbul (31 December 2016: 73 domestic branches).

1. General Information (continued)

Explanations on Subsidiary

Fiba Portföy Yönetimi A.Ş. ("Fiba Portföy") which is a 99% owned subsidiary of the Bank, established in September 2013 in İstanbul, was consolidated by using full consolidation method in the consolidated financial statements as at 31 December 2016. Fibabanka A.Ş. and Fiba Portföy Yönetimi A.Ş. are together stated as the "Group" in this report.

Fiba Portföy's application to Capital Market Board ("CMB") about portfolio management authorization certificate was issued successfully and PYŞ. PY 56/1267 numbered 12 December 2013 dated authorization certificate was given to Fiba Portföy.

The aim of Fiba Portföy is to manage portfolios which consist of financial assets within the implementation of CMB's laws and relevant legislation rules with portfolio management contract as a representative and trade in capital markets. Besides, Fiba Portföy can manage local and foreign investment funds, investment trusts, local/foreign natural and legal people, investment firms and similar enterprises within the circle of legislation conditions as portfolio management activities. Fiba Portföy can also function on investment consulting activity, market consultancy and trading on shares of investment funds at Borsa İstanbul A.Ş. Emerging Companies Market on the condition that articles of the capital market legislation is fulfilled and necessary permission and authorization certificates are taken from Capital Markets Board. The Bank owns 99% of the equity of Fiba Portföy whose headquarters is located in Istanbul.

The Group has 1,641 employees as of 31 December 2017 (31 December 2016: 1,494 employees).

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2017. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2017 are as follows:

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are retrospectively applied for annual periods beginning on or after 1 January 2017. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The amendments did not have an impact on the financial position or performance of the Group.

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

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

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

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors’ interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will apply the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The amendments did not have material impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting.

In addition, IFRS 9 addresses the so-called ‘own credit’ issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value.

The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard.

The Group has performed an impact assessment of IFRS 9 in where it is assumed the the effect of the credit losses and related deferred tax will cause a decrease of approximately 14% on equity. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The impact of standard on all three aspects of IFRS 9 is as follows:

- ***Classification and Measurement of Financial Assets***

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

2. The new standards, amendments and interpretations (continued)

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

➢ ***Impairment***

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables.

➢ ***Hedge accounting***

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group’s financial statements.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:
a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on and after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Group and will not have any impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

IFRS 4 Insurance Contracts (Amendments)

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The interpretation is effective for annual reporting periods beginning on and after 1 January 2018. Earlier application is permitted. The interpretation is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

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

The amendments are not applicable for the Group and will not have any impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

IFRS 17 - The new Standard for insurance contracts

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

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

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

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

The amendments are effective for annual periods beginning on and after 1 January 2018, with early application permitted.

The amendments are not applicable for the Group and will not have any impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

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

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

The Group has performed a high-level impact assessment of Amendments. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity.

Annual Improvements – 2015–2017 Cycle

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

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

The amendment are not applicable for the Group and will not have any impact on the financial position or performance of the Group.

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

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

3 Significant Accounting Policies

i. Statement of Compliance

The Bank and its subsidiary maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by BRSA, the Turkish Commercial Code and the Turkish Tax Legislation (collectively, Turkish GAAP).

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying financial statements are authorized for issue by the directors on 11 May 2017.

ii. Basis of Preparation

The accompanying financial statements are presented in thousands of TL, which is the Bank's functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, instruments at fair value through profit or loss and available-for-sale financial assets.

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

iii. Basis of Consolidation

According to full consolidation method, the subsidiary's 100% of assets, liabilities, revenues, expenditures and off-balance sheet liabilities were combined with the Parent Bank's assets, liabilities, revenues, expenditures and off-balance sheet liabilities. Book value of the investment in the Group's subsidiary and the portion of the cost of subsidiary's capital belonging to the Group are eliminated. All intragroup balances and income and expenses relating to transactions between the Bank and its subsidiary are eliminated in full on consolidation. Minority shares in the net income of consolidated subsidiary determined the net income of the Group and were demonstrated as a separate item in the income statement. Minority shares were presented under equity in the consolidated financial statement.

iv. Use of Estimates and Judgments

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

In preparing these financial statements, the significant judgments such as loan loss provision and deferred tax recoverability made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2016.

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

3 Significant Accounting Policies (continued)

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the effect on the amounts recognised in the financial statements are described in notes “vi” to “xx”.

v. Reclassification of Comparative Information

If the presentation or classification of the financial statements is changed in the current year, in order to maintain consistency, financial statements of prior years are also reclassified in line with the related changes.

vi. Foreign Currency Translation

For the purpose of the accompanying financial statements, the consolidated results and consolidated financial position of the Group is expressed in Turkish Lira, which is the functional currency of the Bank, and the presentation currency for the accompanying consolidated financial statements.

Transactions in currencies other than the Banks’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group’s accounting policies in respect of such derivative financial instruments).

As at 31 December 2017 and 31 December 2016 foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and CHF. Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL
31 December 2017	4.5155	3.7719
31 December 2016	3.7099	3.5192

3 Significant Accounting Policies (continued)

vii. Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Premises	50 years
Vehicles	5 years
Furniture, fixtures and office equipment and others	4-50 years

The residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each year end.

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 derecognition 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.

viii. Intangible Assets

Intangible assets acquired 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.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 10 years. There are no intangible assets with indefinite useful lives.

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

3 Significant Accounting Policies (continued)

ix. Cash and Cash Equivalents

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

x. Financial Instruments

a) <u>Financial Assets</u>

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, 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.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. 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.

➢ ***Financial Assets at Fair Value through Profit or Loss***

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

➢ ***Held-to-Maturity Investments***

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 does not have any financial asset classified as held to maturity.

➢ ***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Except for loans and advances designated as hedged item in qualifying hedging relationships and carried at fair value, 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.

3 Significant Accounting Policies (continued)

- ***Available-For-Sale Financial Assets***

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at the 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.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used. As of 31 December 2017, total amount of financial assets available for sale is TL 766,163 (31 December 2016: TL 887,226), of which TL 586,308 comprises of private bank and corporate bonds denominated in foreign currencies with maturity more than 1 year (31 December 2016: TL 703,375).

- ***Impairment of Financial Assets***

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

- ***Assets Carried at Amortized Cost***

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. 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:

3 Significant Accounting Policies (continued)

➢ ***Assets Carried at Amortized Cost (continued)***

- Significant financial difficulty of the issuer or the obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- 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:

  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

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, determined by the net present value of the expected future cash flows discounted at the loan’s original effective interest rate. 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 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 Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 Significant Accounting Policies (continued)

- ***Assets Carried at Amortized Cost (continued)***

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Banks 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 in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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.

- ***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.

- ***Assets Carried at Fair Value***

Available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Impairment losses recognized in the income statement on equity instruments classified as available for sale are not reversed through income statement.

Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

3 Significant Accounting Policies (continued)

➢ ***Derecognition of Financial Assets***

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

b) Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

➢ ***Financial Liabilities at Fair Value through Profit or Loss***

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in ‘other gains/losses’ line in the statement of comprehensive income.

➢ ***Other Financial Liabilities***

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

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

➢ ***Derecognition of Financial Liabilities***

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

3 Significant Accounting Policies (continued)

➢ ***Off- Balance Sheet Commitments and Contingencies***

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

Derivative Financial Instruments

The Group's derivative transactions mainly consist of interest rate swaps, foreign currency swaps, foreign currency options and foreign currency forward contracts. The Group does not have any embedded derivatives separated from the host contract.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", forward foreign currency purchase/sale contracts, swaps and options are classified as "hedging purpose" and "trading purpose" transactions. Derivative contracts of the Group are all classified as trading purpose derivatives. Derivatives are initially recognized at cost including the transaction costs. Also, the assets and liabilities arising from the derivative transactions are recorded as off-balance sheet items at their contractual notional amounts. The derivative transactions held for trading are valued at fair-value using market prices or pricing models subsequent to initial recognition and are presented in "derivatives held for trading purpose". Gains and losses arising from a change in the fair value are recognized in the income statement.

➢ **Netting of Financial Assets and Liabilities**

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

xi. Fair Value Considerations

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

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

Due to economic conditions and volatility or low trading volumes in markets, the Bank may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparisons with similar financial instruments that do have active markets. As there are wide ranges of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would not differ significantly from market rates.

3 Significant Accounting Policies (continued)

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

- Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.
- Securities investments: Fair value is estimated using quoted market prices wherever applicable.
- Derivatives: Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

  In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency swap transactions are determined by comparing forward rates with contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and repricing date are used.

- Loans and Receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 management believes that the risk factors embedded in the initial interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

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

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

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

3 Significant Accounting Policies (continued)

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain OTC derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

xii. Non-current Assets Held for Sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

xiii. Employee Benefits

➢ ***Employee Termination Benefits***

In accordance with existing social legislation in Turkey, the Group is required to pay lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

These payments are qualified as recognized retirement benefit plan according to revised IAS 19 Employee Benefits. Severance payment liability recognized in the balance sheet is calculated according to net present value of expected amount in the future arising from all employees' retirements and presented in the financial statements. All actuarial gains and losses are recognized immediately through other comprehensive income.

As of 31 December 2017, the Group's severance payment provision is calculated by an actuarial firm and the actuarial loss of TL 4,636 (net of deferred taxes) is accounted for under Equity (31 December 2016: Actuarial loss of TL 3,003).

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

3 Significant Accounting Policies (continued)

The principal actuarial assumptions used at 31 December 2017 and 31 December 2016 are as follows;

	31 December 2017	31 December 2016
	%	%
Discount rate	11.9	11.5
Inflation rate	8.9	8.0

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2017 was TL 4,732.48 (full basis) (31 December 2016: TL 4,297.21 (full basis)).

- ***Other Contributions***

The Group pays contributions to Social Security Funds on a mandatory basis. There are no other liabilities related to employee benefits to be provisioned.

xiv. Provisions

Provisions are recognized when the Group has a present obligation 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.

xv. Leases

- ***The Group as Lessee***

Operating Leases: Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch and head office premises, which are cancellable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

xvi. Income and Expense Recognition

Interest income and expenses are recognized in the income statement 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, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

3 Significant Accounting Policies (continued)

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

Fee for bank transfers and other banking transaction services are recorded as income when collected. Net trading income comprises gains minus losses related to financial assets and liabilities held for trading and includes all realised and unrealised fair value changes and foreign exchange differences.

xvii. Related party transactions

Related parties include entities, which the Group has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, close members of their families, companies owned or controlled by them and companies over which they can influence the financial and operating policies.

xviii. Income Tax

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

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

- ***Current Tax***

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

- ***Deferred Tax***

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management’s judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

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

3 Significant Accounting Policies (continued)

In accordance with the provisional article, added to Corporate Tax Law, corporate tax, which is 20% for the year 2017, shall be applied as 22% for the profit of company belonging to 2018, 2019 and 2020 fiscal periods. In accordance with this applicable law, 22% tax rate shall be calculated for periods, in which the deferred tax assets and liabilities emerges and liabilities are met, while it is calculated with 20% for 2021 and following periods.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

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 relate to the same taxable entity and the same taxation authority.

xix. Subsequent Events

Post-balance sheet events that provide additional information about the Group's position at the balance sheet dates (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

xx. Segment Reporting

A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

4 Segment Reporting

Segment information is presented in respect of the Group's business segments. The Group comprises Retail, Corporate & Commercial Banking and Treasury as main business segments; Fiba Portföy, the Bank's consolidated subsidiary, is operating in the area of portfolio management.

Major financial statement items according to business segments:

1 January - 31 December 2017	**Corporate & Commercial Banking**	**Retail Banking**	**Treasury & Head Office**	**Total**
Operating income	413,329	273,456	28,273	715,058
Profit before tax	90,994	(49,010)	(41,200)	784
Tax income				293
Net profit				**1,077**
31 December 2017				
Segment assets	10,588,059	4,202,600	5,086,156	19,876,815
Unallocated assets				--
Total assets				**19,876,815**
Segment liabilities	4,316,449	7,354,825	6,812,315	18,483,589
Unallocated liabilities				--
Equity				1,393,226
Total liabilities and equity				**19,876,815**

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

4 Segment Reporting (continued)

1 January - 31 December 2016	Corporate & Commercial Banking	Retail Banking	Treasury & Head Office	Total
Operating income	303,177	242,753	80,706	626,636
Profit before tax	185,574	9,778	(36,121)	159,231
Tax charge				(32,427)
Net profit				**126,804**
31 December 2016				
Segment assets	7,974,405	3,338,361	3,995,327	15,308,093
Unallocated assets				--
Total assets				**15,308,093**
Segment liabilities	2,595,736	6,543,963	4,783,967	13,923,666
Unallocated liabilities				--
Equity				1,384,427
Total liabilities and equity				**15,308,093**

5 Financial Risk Management

(a) Introduction and Overview

The Group has exposure to the following risks due to its operations:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. Risk Committee of the Bank is responsible for developing and monitoring the Group’s risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group’s risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its directives, procedures and regular trainings aims to develop a disciplined and constructive control environment, in which all employees understand their roles and responsibilities.

The Bank Audit Committee is responsible to monitor the efficiency and adequacy of the Group's Internal Control Systems framework on behalf of the Board of Directors. The Bank Audit Committee is assisted in these functions by Risk Management, Internal Control and Operational Risk, Legislation & Compliance and Internal Audit departments.

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

5 Financial Risk Management (continued)

(b) Credit Risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty fails to meet its contractual obligations to a financial instrument, among the Bank's corporate, retail bank sovereign loan portfolio. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure such as individual risk, counterparty risk, group risk as well as country & sector risks.

The Group's counterparty credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group only deals with counterparties which have good credit worthiness.

The Group has defined rating models, and validation standards in order to estimate, identify, measure, monitor, dispose, reduce and manage the credit risk. These standards have been developed to determine the quality of credit customers in line with the Group's credit policy. Credit risk reports and concentration & risk limits concerning the Bank's loan portfolio are reviewed periodically by the Risk Management Department.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

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

	31 December 2017		
Cash Loans	**Performing (*)**	**Non - Performing (**)**	**Total**
Secured loans	14,689,347	225,308	14,914,955
Secured by cash collateral	11,316	--	11,316
Secured by mortgages	3,735,099	220,073	3,955,172
Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes)	10,942,932	5,235	10,948,167
Unsecured loans	68,392	243,185	311,577
Total Cash Loans	**14,757,739**	**468,493**	**15,226,232**

(*) Net-off of unearned comission income.

(**) The loan balance excludes allowance for loan losses.

	31 December 2016		
Cash Loans	**Performing**	**Non – Performing (*)**	**Total**
Secured loans	10,895,663	97,978	10,993,641
Secured by cash collateral	85,000	--	85,000
Secured by mortgages	3,608,873	91,993	3,700,866
Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes)	7,201,790	5,985	7,207,775
Unsecured loans	403,676	114,661	518,337
Total Cash Loans	**11,299,339**	**212,639**	**11,511,978**

(*) The loan balance excludes allowance for loan losses.

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

5 Financial Risk Management (continued)
(b) Credit Risk (continued)

Collateral policy (continued)

The breakdown of non-cash loans by type of collateral is as follows:

Non-Cash Loans	31 December 2017	31 December 2016
Secured loans	2,003,112	866,495
Secured by cash collateral	3,771	--
Secured by mortgages	39,413	65,166
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,959,928	801,329
Unsecured loans	27,882	30,531
Total Non-Cash Loans	**2,030,994**	**897,026**

Sectoral concentration of loans and advances to customers

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of performing loans and advances to customers is shown below:

	31 December 2017	31 December 2016
Consumer	862,796	567,821
Manufacturing	3,045,077	2,592,886
Service	7,055,034	5,310,521
Construction	2,623,490	1,911,909
Agriculture and stockbreeding	553,912	344,374
Other	617,430	571,828
Total performing loans and advances to customers	**14,757,739**	**11,299,339**

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

5 Financial Risk Management (continued)
(b) Credit Risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	31 December 2017	31 December 2016
Balances with the Central Bank (including reserve deposits)(*)	2,369,144	1,859,427
Deposits with and loans due from banks and other financial institutions	696,350	333,082
Financial assets at fair value through profit and loss	743,877	497,685
Financial assets available for sale	766,163	887,226
Loans and receivables	14,802,842	11,345,176
Total	**19,378,376**	**14,922,596**
Contingent liabilities	2,030,994	897,026
Commitments	666,245	452,890
Total	**2,697,239**	**1,349,916**
Total credit risk exposure	**22,075,615**	**16,272,512**

(*) Balances with the Central Bank (including reserve deposits) excludes cash in TL /foreign currency amount.

Credit quality of loans and receivables as of 31 December 2017 and 2016 are as follows;

31 December 2017	Neither past due nor impaired	Past due but not impaired	Individually impaired (gross)	Total
Loans and receivables				
Commercial	13,394,554	392,698	447,864	14,235,116
Consumer	806,944	47,900	12,690	867,534
Credit cards	109,255	6,388	7,939	123,582
Total	**14,310,753**	**446,986**	**468,493**	**15,226,232**

31 December 2016	Neither past due nor impaired	Past due but not impaired	Individually impaired (gross)	Total
Loans and receivables				
Commercial	10,266,283	374,445	194,587	10,835,315
Consumer	522,860	36,886	12,863	572,609
Credit cards	93,751	5,114	5,189	104,054
Total	**10,882,894**	**416,445**	**212,639**	**11,511,978**

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

5 Financial Risk Management (continued)

(b) Credit Risk (continued)

Carrying amount per class of loans and receivables assets whose terms have been renegotiated:

	31 December 2017	31 December 2016
Loans and receivables		
Commercial	417,273	476,888
Consumer	4,672	6,581
Total	**421,945**	**483,469**

Aging analysis of past due but not impaired loans per class of financial instruments:

31 December 2017	Less than 31 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	143,577	131,852	117,267	392,698
Consumer	8,248	22,919	16,733	47,900
Credit cards	1,797	3,288	1,303	6,388
Total	**153,622**	**158,059**	**135,303**	**446,986**

31 December 2016	Less than 31 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	139,700	61,771	172,974	374,445
Consumer	5,412	19,345	12,129	36,886
Credit cards	2,072	2,035	1,007	5,114
Total	**147,184**	**83,151**	**186,110**	**416,445**

(c) Liquidity Risk

Liquidity risk reflects the potential inability both to finance assets over appropriate times to maturity and at suitable rates and to liquidate portfolio positions at the proper time and at reasonable prices.

The Group maintains liquidity facilities with the Central Bank of Turkey and other banks that are available immediately when needed. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy.

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

5 Financial Risk Management (continued)

(c) Liquidity Risk (continued)

The table below shows the undiscounted cash flows on the Group's non-derivative financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal inflow / (outflow) disclosed in the below table represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability.

31 December 2017	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities								
Deposits from banks	1,081,350	1,082,605	134,145	634,244	314,216	--	--	--
Deposits from customers	11,666,436	11,797,526	803,535	7,034,113	3,104,501	823,508	31,869	--
Borrowings from banks	2,084,851	2,146,784	--	56,125	208,881	1,352,416	502,626	26,736
Securities issued	1,255,066	1,287,720	--	348,760	432,100	506,860	--	--
Subordinated loans	1,194,561	2,083,766	--	--	45,747	45,788	366,046	1,626,185
Total	**17,282,264**	**18,398,401**	**937,680**	**8,073,242**	**4,105,445**	**2,728,572**	**900,541**	**1,652,921**

31 December 2016	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities								
Deposits from banks	1,165,633	1,166,996	114,714	864,717	187,565	--	--	--
Deposits from customers	9,134,933	9,239,187	502,592	5,606,202	2,159,993	950,717	19,683	--
Borrowings from banks	1,536,663	1,604,138	--	15,997	153,052	853,263	537,294	44,532
Securities issued	991,975	1,015,580	--	184,700	432,430	398,450	--	--
Subordinated loans	397,278	752,983	--	--	17,868	18,164	143,990	572,961
Total	**13,226,482**	**13,778,884**	**617,306**	**6,671,616**	**2,950,908**	**2,220,594**	**700,967**	**617,493**

Maturity analysis of balance sheet items is as follows:

As at 31 December 2017	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocated	Total
Assets:							
Cash and balances with the Central bank	628,694	1,858,562	--	--	--	--	2,487,256
Due from banks	81,457	614,891	2	--	--	--	696,350
Financial assets at fair value through profit and loss	--	80,614	26,183	95,282	541,798	--	743,877
Financial assets available-for-sale	1,727	--	4,860	177,940	581,636	--	766,163
Loans and advances to customers	--	1,658,994	2,013,452	5,738,789	5,346,504	45,103	14,802,842
Other assets	--	--	--	10,373	7,529	362,425	380,327
Total assets	**711,878**	**4,213,061**	**2,044,497**	**6,022,384**	**6,477,467**	**407,528**	**19,876,815**
Liabilities:							
Deposits from banks	134,145	633,988	313,217	--	--	--	1,081,350
Deposits from customers	803,535	7,009,999	3,061,759	763,994	27,149	--	11,666,436
Financial liabilities at fair value through profit and loss	--	93,298	38,322	104,261	513,709	--	749,590
Borrowing from banks	--	59,927	208,687	1,310,123	506,114	--	2,084,851
Securities issued	--	346,570	423,478	485,018	--	--	1,255,066
Subordinated loans	--	--	25,272	--	1,169,289	--	1,194,561
Other liabilities and equity	--	36,354	5,897	--	3,664	1,799,046	1,844,961
Total liabilities	**937,680**	**8,180,136**	**4,076,632**	**2,663,396**	**2,219,925**	**1,799,046**	**19,876,815**
Net liquidity surplus/(gap)	**(225,802)**	**(3,967,075)**	**(2,032,135)**	**3,358,988**	**4,257,542**	**(1,391,518)**	**--**
As at 31 December 2016							
Total assets	373,897	3,689,164	1,573,638	4,415,356	4,903,211	352,827	15,308,093
Total liabilities	617,306	6,696,525	2,925,439	2,129,447	1,278,330	1,661,046	15,308,093
Net liquidity surplus/(gap)	**(243,409)**	**(3,007,361)**	**(1,351,801)**	**2,285,909**	**3,624,881**	**(1,308,219)**	**--**

5 Financial Risk Management (continued)

(d) Market Risk

In order to provide hedge against the market risk within the context of the risk management objectives, the Group sets its activities related with market risk management in accordance with "Regulations on Banks' Internal Control and Risk Management Systems and ICAAP" published in the Official Gazette no. 29057 dated 11 July 2014 and "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette no. 29511 dated 23 October 2015.

Being exposed to market risk, Bank's Board of Directors has defined risk management strategies and policies about risk managements in line with application and recommendation of group and have led to follow-up strategies periodically. The limits of risks are identified and these limits are revised periodically. Board of Directors ensures that risk management group and executive managers should identify, measure, control and manage the Group's risk.

Market risk arising from trading transactions is limited through the risk appetite policy approved by Board of Directors as "low" and measured by taking into consideration BRSA's standard methodology. Additionally Financial Control Department reports the market value of daily purchases and sales and realized profit. The risk management and asset liability committee continuously monitor compliance of trading transactions with the risk appetite policy. Market risk occurred between mismatches of asset-liability maturity is also monitored through GAP report.

Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. Risk measurement methods such as cash flow projection, GAP analysis are also applied.

Capital to be kept for general market risk and specific risk are calculated by using a standard method in accordance with "Measurement and Assessment of Bank Capital Adequacy Regulation" and reported monthly.

In the calculation of the value at credit risk for the derivative financial instruments, the receivables from counterparties are multiplied by the rates stated in the Article 21 and Appendix-2 of "the Regulation on Measurement and Assessment of Capital Adequacy of Banks", reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category and weighted for a second time. The risk amount related to the Group's derivative financial instruments are calculated using the "Fair Value Method".

(i) Interest Rate Risk

"Interest rate risk" is the probability of loss due to changes in interest rates depending on the Group's position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities.

Within the scope of Asset and Liability Management Policy, Group's assets and liabilities are re-priced according to the remaining maturities and determined interest rate shocks' effect on the net economic value is calculated.

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

5 Financial Risk Management (continued)

(d) Market Risk (continued)

(i) Interest Rate Risk

With the interest rate risk reports and stress tests on the interest rate risk of the Group, willing to relocate risk levels are tested due to the sensitivity of the risk levels in the presence of crisis scenarios and keeping them under control is provided.

Interest rate gap analysis

The following tables indicate the periods in which financial assets and liabilities are repriced as at 31 December 2017 and 31 December 2016;

31 December 2017:	**Less than three months**	**Between three and twelve months**	**Over one year**	**Non-interest bearing**	**Total**
Financial assets					
Cash and balances with the Central Bank	1,759,977	--	--	727,279	2,487,256
Due from banks	614,893	--	--	81,457	696,350
Financial assets at FVTPL	124,833	95,483	523,561	--	743,877
Financial assets available for sale	4,860	179,757	579,819	1,727	766,163
Loans and advances to customers (*)	5,594,103	3,016,490	6,147,146	--	14,757,739
Financial liabilities					
Derivatives held for trading	131,620	104,261	513,709	--	749,590
Deposits from banks	947,205	--	--	134,145	1,081,350
Deposits from customers	10,071,758	763,994	27,149	803,535	11,666,436
Borrowings from banks	1,446,281	635,733	2,837	--	2,084,851
Securities issued	770,048	485,018	--	--	1,255,066
Subordinated loans	62,991	--	1,131,570	--	1,194,561

(*) The loan balance excludes non-performing loans (net)

31 December 2016:	**Less than three months**	**Between three and twelve months**	**Over one year**	**Non-interest bearing**	**Total**
Financial assets					
Cash and balances with the Central Bank	1,352,802	--	--	585,132	1,937,934
Due from banks	308,517	--	--	24,565	333,082
Financial assets at FVTPL	23,145	1,014	4,099	469,427	497,685
Financial assets available for sale	293	24,940	860,973	1,020	887,226
Loans and advances to customers (*)	5,671,888	1,986,542	3,640,909	--	11,299,339
Financial liabilities					
Derivatives held for trading	27,306	32,518	323,635	--	383,459
Deposits from banks	1,050,919	--	--	114,714	1,165,633
Deposits from customers	7,723,113	891,984	17,244	502,592	9,134,933
Borrowings from banks	924,278	609,851	2,534	--	1,536,663
Securities issued	608,219	383,756	--	--	991,975
Subordinated loans	45,358	--	351,920	--	397,278

(*) The loan balance excludes non-performing loans (net)

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

5 Financial Risk Management (continued)

(d) Market Risk (continued)

(i) Interest Rate Risk

The following table indicates the interest rates by major currencies for the major balance sheet components as at 31 December 2017 and 31 December 2016:

31 December 2017	EUR %	USD %	Other Currencies %	TL %
Cash and balances with the Central Bank	--	1.25	--	4.00
Financial assets at FVTPL	2.00	5.29	--	14.70
Financial assets available for sale	3.43	4.42	--	10.15
Due from banks	0.04	1.54	--	12.75
Loans and advances to customers	5.97	6.65	11.44	16.96
Deposits from banks	--	1.65	1.10	12.52
Borrowing from banks	1.95	2.87	1.79	6.63
Repurchase agreements	0.24	2.50	--	11.63
Deposits from customers	1.59	3.99	1.61	14.38
Securities issued	--	7.75	--	14.00
Subordinated loans	--	9.96	--	--
31 December 2016				
Cash and balances with the Central Bank	--	0.75	--	3.31
Financial assets at FVTPL	3.19	4.69	--	10.67
Financial assets available for sale	3.43	4.51	--	9.40
Due from banks	0.01	0.55	--	10.40
Loans and advances to customers	5.97	6.23	5.73	15.23
Deposits from banks	--	0.84	1.00	9.06
Borrowing from banks	1.89	2.53	1.79	6.55
Repurchase agreements	0.53	2.27	--	8.00
Deposits from customers	1.60	3.46	1.75	11.40
Securities issued	--	9.25	--	10.77
Subordinated loans	--	9.59	--	--

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

5 Financial Risk Management (continued)

(d) Market Risk (continued)

The Bank analyses and reports to the Bank's senior management the interest rate sensitivity of equity on a monthly basis by applying positive and negative shocks to the interest sensitive on balance sheet and off-balance sheet positions which are distributed into groups based on their cashflows.

	31 December 2017			2016
	Shock Applied (+ / - x bps)	**Gains/ Losses**	**Gains / Equity - Losses / Equity**	**Gains / Equity - Losses / Equity**
TRY	500	(234,042)	(8.69)%	(11.45)%
TRY	-400	215,506	8.01%	10.95%
USD Dollar	200	59,703	2.22%	(0.89)%
USD Dollar	-200	(66,610)	(2.47)%	0.68%
EURO	200	(113,460)	(4.21)%	(4.33)%
EURO	-200	125,825	4.67%	0.00%
Total (For Positive Shocks)		**(287,799)**	**(10.69)%**	**(16.67)%**
Total (For Negative Shocks)		**274,721**	**10.20%**	**11.63%**

(ii) Currency Risk

The Group is exposed to currency risk through transactions in foreign currencies. The main measurement currencies of its foreign exchange operations are Euro and USD. As the currency in which the Group presents its financial statements is the Turkish Lira (TL), the financial statements are affected by movements in the exchange rates between these currencies and TL. Currency risk is managed through VaR limits.

At 31 December 2017 and 31 December 2016, the Group's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	2017					
	EUR	**USD**	**CHF**	**Other**	**Total**	**Total in 2016**
Foreign currency denominated assets(*):						
Cash and balances with Central Bank	271,672	1,578,269	--	361,714	2,211,655	1,799,957
Due from banks	545,626	98,166	--	4,423	648,215	316,645
Financial assets at FVTPL	411	4,579	--	--	4,990	5,727
Financial assets available for sale	88,939	492,468	--	--	581,407	712,793
Loans and advances to customers	3,891,325	1,226,241	45,715	65,639	5,228,920	3,854,577
Other assets	1,596	1,021	--	--	2,617	1,927
	4,799,569	**3,400,744**	**45,715**	**431,776**	**8,677,804**	**6,691,626**
Foreign currency denominated liabilities(*):						
Deposits from banks	203,441	767,626	--	25,247	996,314	870,160
Borrowings from banks	1,028,911	1,029,310	--	4,841	2,063,062	1,519,442
Deposits from customers	724,805	4,622,156	--	29,287	5,376,248	3,436,517
Subordinated loans	--	1,194,561	--	--	1,194,561	397,278
Other liabilities	19,814	77,846	--	--	97,660	91,816
	1,976,971	**7,691,499**	**--**	**59,375**	**9,727,845**	**6,315,213**
Net on-balance sheet position	2,822,598	(4,290,755)	45,715	372,401	(1,050,041)	376,413
Net off-balance sheet position	(2,895,496)	4,249,171	(39,868)	(356,246)	957,561	(501,901)
Net position	**(72,898)**	**(41,584)**	**5,847**	**16,155**	**(92,480)**	**(125,488)**

(*) The balance does not include accruals of trading derivative financial assets and derivative financial liabilities.

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

5 Financial Risk Management (continued)

A 10 percent strengthening of the foreign currencies against TL would have decreased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10 percent weakening of the foreign currencies against TL would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	31 December 2017		31 December 2016	
	Profit or Loss	**Equity**	**Profit or Loss**	**Equity**
USD	(4,158)	(4,215)	(13,119)	(14,197)
EUR	(7,290)	(7,012)	(3,174)	(3,106)
CHF	585	585	163	163
Other currencies	1,615	1,615	3,581	3,581
Total, net	**(9,248)**	**(9,027)**	**(12,549)**	**(13,559)**

(e) Operational Risk

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

The Group practices policies in accordance with local regulations and in the context of best international practices for operational risk identification, measurement, mitigation, reporting and control of international best practices in the context of implementing.

Under the umbrella of operational risk, business continuity policies and procedures have been created. Business impact analysis has been made to ensure process based business continuity, critical activities of the institution and necessary resources to carry out these activities have been identified. Creation of infrastructure for the implementation of the plans is in progress through business continuity plans.

(f) Capital Adequacy

The BRSA sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets (12% for banks operating in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances and the element of the fair value reserve relating to unrealized gains on securities classified as available-for-sale.

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

5 Financial Risk Management (continued)

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group and its individually regulated operations have complied with externally imposed capital requirements throughout the period and its capital adequacy ratio calculated in accordance with local regulations is above the minimum required ratio which is 8%.

The capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques", "Regulation on Calculation of Risk Weighted Amounts for Securitization's" and the "Regulation on Equities of Banks". In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortization or impairment, are taken into account on a net basis after being reduced by the related amortizations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the "counterparty credit risk" is calculated for repurchase transactions, securities and commodities borrowing agreements.

Summary information related to the consolidated capital adequacy ratio

	Bank		Group	
	Current Period	Prior Period	Current Period	Prior Period
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	1,239,245	993,704	1,238,833	993,745
Capital Requirement for Market Risk (CRMR)	25,840	12,303	25,840	12,303
Capital Requirement for Operational Risk (CROR)	70,961	52,264	71,170	52,392
Equity	2,687,405	1,785,126	2,687,385	1,782,988
Equity/((CRCR+MRCR+ORCR) * 12.5 * 100)	16.09%	13.48%	16.09%	13.48%

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

6 Fair Value of Financial Instruments

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

31 December 2017	**Financial instruments at fair value**	**Loans and receivables**	**Financial instruments at amortized cost**	**Total carrying amount**	**Fair value**
Cash and balances with the Central Bank	--	2,487,256	--	2,487,256	2,487,256
Due from banks	--	696,350	--	696,350	696,350
Financial assets at FVTPL	743,877	--	--	743,877	743,877
Financial assets available for sale	766,163	--	--	766,163	766,163
Loans and advances to customers:	--	--	--	--	--
Measured at fair value	--	600,156	--	600,156	600,156
Measured at amortized cost	--	14,202,686	--	14,202,686	14,288,622
	1,510,040	**17,986,448**	**--**	**19,496,488**	**19,582,424**
Derivatives held for trading	749,590	--	--	749,590	749,590
Deposits from banks	--	--	1,081,350	1,081,350	1,081,350
Borrowings from financial institutions	--	--	2,084,851	2,084,851	2,084,851
Deposits form customers	--	--	11,666,436	11,666,436	11,666,436
Securities issued	--	--	1,255,066	1,255,066	1,255,066
Subordinated loans	--	--	1,194,561	1,194,561	1,194,561
	749,590	**--**	**17,282,264**	**18,031,854**	**18,031,854**

31 December 2016	**Financial instruments at fair value**	**Loans and receivables**	**Financial instruments at amortized cost**	**Total carrying amount**	**Fair value**
Cash and balances with the Central Bank	--	1,937,934	--	1,937,934	1,937,934
Due from banks	--	333,082	--	333,082	333,082
Financial assets at FVTPL	497,685	--	--	497,685	497,685
Financial assets available for sale	887,226	--	--	887,226	887,226
Loans and advances to customers:	--	--	--	--	--
Measured at fair value	--	--	--	--	--
Measured at amortized cost	--	11,345,176	--	11,345,176	11,409,580
	1,384,911	**13,616,192**	**--**	**15,001,103**	**15,065,507**
Derivatives held for trading	383,459	--	--	383,459	383,459
Deposits from banks	--	--	1,165,633	1,165,633	1,165,633
Borrowings from financial institutions	--	--	1,536,663	1,536,663	1,536,663
Deposits from customers	--	--	9,134,933	9,134,933	9,134,933
Securities issued	--	--	991,975	991,975	991,975
Subordinated loans	--	--	397,278	397,278	397,278
	383,459	**--**	**13,226,482**	**13,609,941**	**13,609,941**

Fair values of the financial assets and liabilities carried at amortized cost, except for loans and advances to customers, are considered to approximate their respective carrying values due to their short-term nature.

The fair values of financial assets and financial liabilities are determined as follows:

• Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

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

6 Fair Value of Financial Instruments (continued)

• Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

• Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

	31 December 2017			31 December 2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Financial assets at fair value through profit and loss	55,376	688,501	--	82,681	415,004	--
Financial assets available for sale	764,436	1,727	--	886,207	1,019	--
Loans and advances to customers	--	14,888,778	--	--	11,409,580	--
Financial Liabilities						
Deposit from banks & customers	--	12,747,786	--	--	10,300,566	--
Borrowings from financial institutions	--	2,084,851	--	--	1,536,663	--
Securities issued	--	1,255,066	--	--	991,975	--
Subordinated loans	--	1,194,561	--	--	397,278	--
Derivatives held for trading	--	749,590	--	--	383,459	--
Derivatives used for hedging purposes	--	3,664	--	--	--	--

There is no transition between Level 1 and Level 2 in the current year.

7 Cash and Balances with Central Bank

At 31 December 2017 and 31 December 2016, cash and balances with the Central Bank are as follows:

	31 December 2017	31 December 2016
Cash on hand	118,112	78,507
Reserve deposits at the Central Bank-free	516,966	295,774
Reserve deposits at the Central Bank-restricted	1,852,178	1,563,653
Cash and balances with the Central Bank	**2,487,256**	**1,937,934**
Due from other banks	**696,350**	**333,082**
Less: Reserve deposits-restricted	(1,852,178)	(1,563,653)
Less: Blocked deposits	(35,156)	(2,699)
Less: Interest income/expense accruals (net)	--	--
Cash and cash equivalents in the statements of cash flows	**1,296,272**	**704,664**

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

7 Cash and Balances with Central Bank (continued)

Reserve deposits at the Central Bank represent the minimum cash reserve maintained with the Central Bank of Turkey (the Central Bank), as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank. At 31 December 2017, reserve deposit ratios for Turkish Lira and foreign currency deposits are 4%-10.5% and 4%-24% (31 December 2016: 4%- 10.5% and 5%-25%). Restricted reserve deposits are not available for the daily business of the Group. As of 31 December 2017, interest rate for TL and USD reserve deposits are 4.00% and 1.25% respectively. (31 December 2016: 3.31% for TL reserves and 0.75% for USD reserves).

8 Due from Banks

At 31 December 2017 and 31 December 2016, due from banks are as follows:

	31 December 2017	31 December 2016
Turkish Lira	3,087	1,428
Foreign Currency	78,377	23,138
Demand	**81,464**	**24,566**
Turkish Lira	45,048	--
Foreign Currency	193,504	33,814
Time	**238,552**	**33,814**
Turkish Lira	--	15,009
Foreign Currency	376,334	259,693
Money market placements	**376,334**	**274,702**
Total due from banks	**696,350**	**333,082**

As at 31 December 2017, 4 days maturity and 12.75% interest rate for TL currency time placements (31 December 2016: None). As at 31 December 2017, 4 days maturity and 0.31% interest rate for foreign currency time placements (31 December 2016: 3 days maturity and 0.43% interest rate). As at 31 December 2017, there is no TL money market placement (31 December 2016: 2 days maturity and 10.40% interest rate). As at 31 December 2017: 10 days maturity and 0.11% interest rate for foreign currency money market placements (31 December 2016: 3 days maturity and 0.01% interest rate). The Group has TL 35,156 blocked deposit accounts for the derivative contracts with the banks abroad (31 December 2016: TL 2,669).

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

9 Financial Assets and Liabilities

a) Financial Assets

Financial Assets at FVTPL

At 31 December 2017 and 31 December 2016, financial asset at FVTPL are as follows:

	31 December 2017			31 December 2016		
	Pledged	**Non-pledged**	**Total**	**Pledged**	**Non-pledged**	**Total**
Debt instruments	**18,295**	**37,081**	**55,376**	**16,636**	**66,045**	**82,681**
Government bonds	18,295	154	18,449	16,636	396	17,032
Eurobonds	--	4,177	4,177	--	5,721	5,721
Corporate and bank bonds	--	814	814	--	6	6
Investment fund		31,936	31,936	--	59,922	59,922
Derivatives held for trading purpose	**--**	**688,501**	**688,501**	**--**	**415,004**	**415,004**
-Forwards	--	53,648	53,648	--	15,877	15,877
-Currency swaps	--	414,488	414,488	--	272,383	272,383
- Options	--	220,365	220,365	--	126,744	126,744
Total financial assets at FVTPL	**18,295**	**725,582**	**743,877**	**16,636**	**481,049**	**497,685**

As of 31 December 2017, government securities with carrying values of TL 18,295 (31 December 2016: TL 7,055) are pledged to the Central Bank and the İstanbul Takas ve Saklama Bankası Anonim Şirketi (Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for stock exchange and money market operations. As of 31 December 2017 there is no pledged financial asset subject to repo transactions (31 December 2016: TL 9,581).

TL 31,936 (31 December 2016: TL 59,922) of debt securities is investment fund, TL 18,237 (31 December 2016: TL 16,681) of debt securities have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Average interest rates for TL, EUR and USD denominated financial assets at FVTPL are 14.70%, 2.00% and 5.29% respectively (31 December 2016: 10.67%, 3.19% and 4.69% respectively).

Financial Assets Available For Sale

	31 December 2017	31 December 2016
Debt instruments		
Share certificates	1,727	1,019
Corporate and bank bonds	584,581	702,356
Government bonds	179,855	183,851
Total financial assets available for sale	**766,163**	**887,226**

As of 31 December 2017, TL 1,817 of available for sale debt securities have floating interest rates whereas the rest of the debt securities have fixed interest rates (31 December 2016: TL 1,601).

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

9 Financial Assets and Liabilities

b) Financial Liabilities at FVTPL

At 31 December 2017 and 31 December 2016, derivative liabilities held for trading are as follows:

	31 December 2017	31 December 2016
Derivatives held for trading		
- Forwards	43,928	16,986
- Swaps	484,579	239,985
- Options	221,083	126,488
Total financial liabilities at FVTPL	**749,590**	**383,459**

10 Loans and Advances to Customers

At 31 December 2017 and 31 December 2016, loans and advances to customers are as follows:

Consumer loans and individual credit cards	**31 December 2017**	**31 December 2016**
Consumer loans-TL		
Real estate loans	370,519	324,789
Vehicle loans	4,667	7,220
General purpose loans	416,478	153,269
Others	--	--
Consumer loans FC and FC Indexed		
Real estate loans	48,958	66,697
Vehicle loans	--	--
General purpose loans	1,286	1,628
Individual credit cards-TL		
With installment	1,316	971
Without installment	6,597	4,893
Individual credit cards-FC		
With installment	--	--
Without installment	40	210
Personnel loans	**3,803**	**2,572**
Overdraft account-TL	**9,132**	**5,572**
	862,796	**567,821**
Commercial loans and corporate credit cards		
Commercial loans with installments-TL		
Real estate loans	6,445	4,467
Vehicle loans	68,327	52,636
General purpose loans	4,580,850	2,673,677
Commercial loans with installments-FC Indexed		
Real estate loans	407	577
Vehicle loans	18,971	10,806
General purpose loans	180,852	183,571
Corporate credit cards-TL		
With installment	22,515	16,286
Without installment	85,175	76,505
Overdraft accounts-TL	76,541	83,097
Spot loans	1,279,477	1,885,374
Revolving loans	2,396,396	2,375,857
Investment loans	113,616	100,851
Export loans	277,235	240,726
Other loans	4,821,056	3,040,551
	13,927,863	**10,744,981**
Total performing loans	**14,790,659**	**11,312,802**
Non-performing loans	**468,493**	**212,639**
Unearned commission income	**(32,920)**	**(13,463)**
Total gross loans	**15,226,232**	**11,511,978**
Allowance for loan losses	(423,390)	(166,802)
Loans and advances to customers	**14,802,842**	**11,345,176**

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

10 Loans and Advances to Customers (continued)

Movement in the allowance for specific and collective loan losses for the years 2017 and 2016 is as follows:

	2017	2016
Balance at 1 January	166,802	97,240
Write-off /Sale (*)	(103,365)	(116,226)
Charge for the year	359,953	185,788
Balance at 31 December	**423,390**	**166,802**

(*) The figures in 2017 and 2016 are related to non-performing loans sales.

The sources of the allowance for the year on loans and advances to customers are as follows:

	1 January-31 December 2017	1 January-31 December 2016
Specific allowance/(reversal)	295,940	131,536
Collective allowance/(reversal)	64,013	54,252
Total	**359,953**	**185,788**

11 Derivative Financial Assets Held For Hedging

At 31 December 2017 and 31 December 2016, derivative financial assets held for hedging purposes are as follows:

	31 December 2017		31 December 2016	
Derivative financial assets held for hedging				
	TL	FC	TL	FC
Fair Value Hedge	17,902	--	--	--
Cash Flow Hedge	--	--	--	--
Foreign Net Investment Hedge	--	--	--	--
Total	**17,902**	--	--	--

12 Other Assets

At 31 December 2017 and 31 December 2016, other assets comprised the following items:

	31 December 2017	31 December 2016
Check clearance balance	25,803	60,147
Prepaid commissions	21,255	16,047
Prepaid rent	1,846	3,108
Other prepaid expenses	6,955	4,921
Non-current assets held for sale (*)	26,506	4,619
Cash guarantees given	748	605
Advances given	627	735
Other	20,808	11,267
	104,548	**101,449**

(*) Certain non-current assets primarily related to the collaterals collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

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

12 Other Assets (continued)

Movement of non-current assets held for sale is as follows:

	2017	2016
Opening balance, 1 January	**4,619**	**3,670**
Additions	28,242	5,258
Disposal	(6,356)	(4,309)
Balance at 31 December	**26,505**	**4,619**

13 Property and Equipment

Movement in property and equipment during the year ended 31 December 2017 is as follows:

	Premises	Furniture, fixture and equipment	Total
Balance at 1 January 2017:			
Cost	171,403	75,324	246,727
Accumulated amortization	(6,078)	(53,410)	(59,488)
Opening net book amount	**165,325**	**21,914**	**187,239**
Additions	160	13,643	13,803
Disposals (net)	3,088	--	3,088
Depreciation charge	(1,693)	(9,380)	(11,073)
Balance at 31 December 2017:	**166,880**	**26,177**	**193,057**

Movement in property and equipment during the year ended 31 December 2016 is as follows:

	Premises	Furniture, fixture and equipment	Total
Balance at 1 January 2016:			
Cost	171,365	68,600	239,965
Accumulated amortization	(2,640)	(44,684)	(47,324)
Opening net book amount	**168,725**	**23,916**	**192,641**
Additions	38	6,724	6,762
Disposals (net)	--	1	1
Depreciation charge	(3,438)	(8,727)	(12,165)
Balance at 31 December 2016:	**165,325**	**21,914**	**187,239**

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

14 Intangible Assets

Movement in intangible assets during the year ended 31 December 2017 is as follows:

	Software	Other	Carrying Value
Balance at 1 January 2017:			
Cost	45,016	5,955	50,971
Accumulated amortization	(41,038)	(5,953)	(46,991)
Opening net book amount	**3,978**	**2**	**3,980**
Additions	5,012	--	5,012
Disposals	--	--	--
Amortization charge	(3,042)	(1)	(3,043)
Balance at 31 December 2017:	**5,948**	**1**	**5,949**

Movement in intangible assets during the year ended 31 December 2016 is as follows:

	Software	Other	Carrying Value
Balance at 1 January 2016:			
Cost	42,795	5,956	48,751
Accumulated amortization	(37,456)	(5,930)	(43,386)
Opening net book amount	**5,339**	**26**	**5,365**
Additions	2,221	--	2,220
Disposals	--	--	--
Amortization charge	(3,583)	(23)	(3,606)
Balance at 31 December 2016:	**3,977**	**3**	**3,980**

15 Deposits from Banks

At 31 December 2017 and 31 December 2016, deposits from banks comprised the following items:

	31 December 2017	31 December 2016
Time deposits in FC	387,134	253,561
Time deposits in TL	83,696	113,532
Obligations under repurchase commitments from banks in FC	476,377	504,584
Obligations under repurchase commitments from banks in TL	--	179,244
Demand deposits in FC	132,807	112,017
Demand deposits in TL	1,336	2,697
	1,081,350	**1,165,633**

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

16 Deposits from Customers

At 31 December 2017 and 31 December 2016, deposits from customers comprised the following items:

	31 December 2017			31 December 2016		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Saving Deposits	**414,550**	**8,461,168**	**8,875,718**	**322,022**	**6,453,188**	**6,775,210**
FC Deposits	339,684	5,031,705	5,371,389	265,625	3,163,981	3,429,606
TL Deposits	74,866	3,429,463	3,504,329	56,397	3,289,207	3,345,604
Commercial deposits	338,631	2,287,841	2,626,472	172,152	2,091,437	2,263,589
Public sector and other inst. deposit	45,496	113,892	159,388	1,506	87,716	89,222
Precious metals	4,858	--	4,858	6,912	--	6,912
Total deposits from customers	**803,535**	**10,862,901**	**11,666,436**	**502,592**	**8,632,341**	**9,134,933**

17 Other Liabilities and Provisions

At 31 December 2017 and 31 December 2016, other liabilities comprised of the following items:

	31 December 2017	**31 December 2016**
Check clearance account	62,010	106,950
Blocked accounts	199,482	47,142
Miscellaneous payables	99,450	88,811
Taxes and duties withheld	36,357	30,392
Unused vacation pay liability and personnel bonus accrual	9,896	8,701
Payables to consultants and suppliers	3,397	3,798
Blocked cheques	9,859	5,831
Other	9,113	6,039
Other liabilities	**429,564**	**297,664**
Provision for taxes (Note 22)	5,897	6,714
Employee termination benefits	11,497	8,292
Provision for lawsuits	1,114	1,055
Provisions	**18,508**	**16,061**
Total	**448,072**	**313,725**

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

17 Other liabilities and provisions (continued)

Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 4,732.48 (full TL) and TL 4,297.21 (full TL) at 31 December 2017 and 2016, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

Movements in the present value of the employee termination benefits were as follows:

	2017	2016
Opening, 1 January	8,292	6,038
Current service cost	3,146	2,486
Interest cost	738	370
Benefits paid	(2,720)	(1,311)
Actuarial losses on employee termination benefits	2,041	709
Closing, 31 December	**11,497**	**8,292**

18 Borrowings from Banks

Borrowings from banks as of 31 December 2017 and 2016 comprised the following items:

	31 December 2017	31 December 2016
Borrowing from Banks		
Turkish Lira	21,789	17,220
Foreign Currency	2,063,062	1,519,443
	2,084,851	**1,536,663**

Syndicated loan of EUR 99.5 million and USD 5 million which was due in December 2017 was renewed as EUR 94.6 million and USD 55 million in the same month.

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

19 Securities Issued

TL	31 December 2017	
	Short Term	Medium and Long Term
Nominal	1,287,720	--
Carrying Amount	1,255,066	--

TL	31 December 2016	
	Short Term	Medium and Long Term
Nominal	1,015,580	--
Carrying Amount	991,975	--

20 Subordinated Loans

	31 December 2017	
	TL	FC
Domestic Other Institutions	--	--
Foreign Banks	--	39,298
Foreign Other Institutions	--	1,155,263
Total	**--**	**1,194,561**

	31 December 2016	
	TL	FC
Domestic Other Institutions	--	360,657
Foreign Banks	--	36,621
Foreign Other Institutions	--	--
Total	**--**	**397,278**

The Bank issued US$200,000,000 (full basis) of Fixed Rate Resettable Tier 2 Notes due 2027 (the "*New Notes*") on 10 May 2017, which are to be consolidated and form a single series with the existing US$100,000,000 (full basis) of Fixed Rate Resettable Tier 2 Notes due 2027 that were issued on 24 March 2016.

21 Derivative Financial Liabilities Held For Hedging

At 31 December 2017 and 31 December 2016, derivative financial liabilities held for hedging purposes are as follows:

	31 December 2017		31 December 2016	
Derivative financial liability held for hedging	**TL**	**FC**	**TL**	**FC**
Fair Value Hedge	3,664	--	--	--
Cash Flow Hedge	--	--	--	--
Foreign Net Investment Hedge	--	--	--	--
Total	**3,664**	**--**	**--**	**--**

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

22 Taxation

The Bank and its subsidiary is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporation tax is computed on the statutory income tax base determined in accordance with Tax Procedural Law. Effective from 1 January 2006, Corporate tax rate is 20%.

It is mentioned in provisional article 91 of Law numbered 7061, which is added to Corporate Tax Law numbered 5520 that tax rate for profit of the company regarding 2018, 2019 and 2020 fiscal periods (accounting periods starting within the related period for companies which are assigned special accounting period) shall be implemented as 22%.

In Turkey, tax legislation does not permit a parent group and its subsidiaries to file a consolidated tax return. Therefore, the taxation charge as reflected in the accompanying consolidated financial statements, represents the total amount of taxation change of the Bank and its subsidiary.

Turkish tax legislation provides for a temporary tax to be calculated and paid based on earnings generated for each quarter. The temporary tax rates used in determining the temporary tax are 20% and 22%. The temporary taxes paid quarterly are offset against the final tax liability for the year. The final corporation tax, after deducting the quarterly payments, becomes due and is paid in one installment by 30 April.

In Turkey, the Tax Procedural Law does not provide a procedure for final agreement of tax assessments. Tax returns are required to be filed within the fourth month following the balance sheet date. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred.

Provision for corporate taxes for current and previous year is presented below:

	2017	**2016**
Total tax liability	46,149	40,453
Prepaid taxes	(40,252)	(33,739)
Provision for taxes (Note 17)	**5,897**	**6,714**

For the years ended 31 December 2017 and 2016, taxation comprised the following:

	2017	**2016**
Current tax charge	(46,186)	(40,201)
Deferred tax benefit / (charge)	46,479	7,774
Total	**293**	**(32,427)**

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

22 Taxation (continued)

The total provision for taxes on income is different than the amount computed by applying the statutory tax rate to loss from operations before provision for taxes on income as shown in the following reconciliation:

	2017	2016
Profit before income tax	**784**	**159,231**
At statutory income tax rate	(157)	(31,846)
Nondeductible expenses	(424)	(1,417)
Other tax exempt income	297	287
Other temporary differences	577	549
Taxation	**293**	**(32,427)**

Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2017 and 31 December 2016 are attributable to the items detailed in the table below:

	31 December 2017	31 December 2016
Deferred tax assets/ liabilities		
Valuation of financial assets	3,278	5,063
Allowance for loan losses	49,586	15,864
Reserve for employee termination benefits	1,892	1,658
Provision for vacation pay	624	550
Unearned loan commissions	2,999	312
Tax losses carried forward	(1)	19
Derivatives held for trading purposes	6,994	(7,474)
Others	(6,501)	(1,670)
Net deferred tax assets / liabilities	**58,871**	**14,322**

The movement of deferred tax asset is as follows:

	2017	2016
Balance at the beginning of the period	**14,322**	**3,775**
Deferred tax recognised in income statement	46,479	7,774
Deferred tax recognised under equity	(1,930)	2,773
Balance at the end of the period	**58,871**	**14,322**

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

23 Share Capital and Share Premium

Share capital structure of the Bank is as follows:

	31 December 2017		31 December 2016	
Name / Commercial Title	Share Amount (Nominal)	Share Ratios	Share Amount (Nominal)	Share Ratios
Fiba Holding A.Ş.	674,952	71.52%	671,852	71.19%
International Finance Corporation ("IFC")	84,554	8.96%	84,554	8.96%
European Bank for Reconstruction and Development ("EBRD")	84,554	8.96%	84,554	8.96%
Turk Finance B.V. ("Abraaj")	93,897	9.95%	93,897	9.95%
Others	5,727	0.61%	8,827	0.94%
Total	**943,684**	**100.00%**	**943,684**	**100.00%**

In May 2015, the Parent Bank's capital was increased by TL 128,860 TL; TL 127,045 of the increase was provided by the subordinated loan granted by Fiba Holding A.Ş. which had been approved to be converted to capital and TL 1,815 of total capital was paid in cash by the other shareholders.

In December 2015, the Parent Bank's paid-in capital was increased to TL 850,038 by an increase of TL 168,655 in total, with equal contributions from International Finance Corporation and European Bank for Reconstruction and Development. In addition, share issuance premium of TL 73,379 was recognised in the sharehodlers' equity.

The Parent Bank's paid-in capital amounting to TL 850,038 was increased to TL 943,684 on 7 September 2016 with the capital contribution of TurkFinance B.V. by TL 93,646. In addition, share issuance premium of TL 55,299 was recognised in the shareholders' equity.

As of 31 December 2017, Bank's full paid in capital is TL 943,684.

24 Retaind Earnings / (Accumulated Losses) and Other Reserves

At 31 December 2017 retained earnings are TL 336,345 (31 December 2016: TL 335,269).

25 Unrealized Losses on Available-For-Sale Investments, Net of Tax

At 31 December 2017, unrealized losses on available-for-sale investments are TL 13,625 (31 December 2016: TL 25,318). The tax effect of unrealized gain on available-for-sale investments is TL 2,724 (31 December 2016: TL 5,064), and the net unrealized loss amount is TL 10,899 (31 December 2016: TL 20,254).

26 Commitments and Contingent Liabilities

24.1 Letters of guarantee and credit

As at 31 December 2017, the Bank is contingently liable for letters of guarantee and credit given amounting to TL 2,030,994 (31 December 2016: TL 897,026).

24.2 Other commitments

	31 December 2017	31 December 2016
Payment commitments for cheques	211,200	172,800
Irrevocable credit facilities	323,365	171,368
Commitments for credit card expenditure limits	123,381	101,475
Tax and fund liabilities from export commitments	5,070	4,230
Commitments for credit card and banking promotions	--	1
Other irrevocable commitments	3,229	3,016
Total	**666,245**	**452,890**

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

26 Commitments and Contingent Liabilities (continued)

24.3 Derivative contracts

Commitments for purchase of foreign currencies under option, forward and swap contracts at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
	Purchase	**Purchase**
Spot buy-sell commitments	817,386	207,606
Swap agreements for trading purposes	9,462,967	5,968,499
Forward agreements for trading purposes	2,650,167	1,016,670
Options	6,668,252	2,754,164
	19,598,772	**9,946,939**

Maturity analysis of derivative instruments is as follows:

31 December 2017	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Interest rate swaps	--	--	--	--	25,000	25,000
Spot, forward and swap exchange contracts	5,484,757	2,751,522	677,553	787,584	3,204,103	12,905,519
Options	991,993	831,874	1,459,100	1,772,459	1,612,827	6,668,253
Total	**6,476,750**	**3,583,396**	**2,136,653**	**2,560,043**	**4,841,930**	**19,598,772**

31 December 2016	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Interest rate swaps	--	--	--	--	25,000	25,000
Spot, forward and swap exchange contracts	2,308,107	801,172	713,222	955,737	2,389,537	7,167,775
Options	392,594	346,833	379,291	273,199	1,362,247	2,754,164
Total	**2,700,701**	**1,148,005**	**1,092,513**	**1,228,936**	**3,776,784**	**9,946,939**

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

27 Related Parties

For the purpose of this report, the Bank's ultimate parent group, Fiba Holding A.Ş. and all its subsidiaries, and the ultimate owners, directors of Fibabanka A.Ş. are referred to as related parties. During the course of the business, the Group has made placements with and also received deposits from them at various terms.

(a) Transactions with direct related parties

	2017	**2016**
Interest income	--	--
Interest expense (*)	26,653	37,997
Non - cash loan commission income	--	--

(*) TL 6,219 is related to IFC and EBRD (31 December 2016: TL 9,447).

(b) Balances with direct related parties

	31 December 2017	**31 December 2016**
Non cash loans to related parties	22	22
Deposits from related parties	300,055	15,552
Subordinated loans	--	360,657
Other borrowings (*)	171,583	162,656

(*) TL 171,583 is related to IFC and EBRD (31 December 2016: TL 162,656).

(c) Transactions with other related parties

	2017	**2016**
Interest income	4,169	5,972
Interest expense	44,785	28,656
Net trading income	(23,759)	(5,967)
Non - cash loan commission income	114	407

(d) Balances with other related parties

	31 December 2017	**31 December 2016**
Cash loans to other related parties	11,556	126,939
Non - cash loans to other related parties	48,284	30,871
Deposits from other related parties	409,341	595,924
Fund borrowings from other related parties	--	--

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

27 Related Parties (continued)

(e) Derivative transactions with other related parties

	31 December 2017	31 December 2016
	Purchase(*)	**Purchase(*)**
Spot, swap, forward and option agreements for trading purposes	467,409	437,272

(*) Stated in notional amounts

(f) Remuneration and benefits of key management

The key management and the members of the Board of Directors received remuneration and fees totaling TL 14,126 in the current period (2016: TL 9,328).

28 Net Interest Income

	2017	2016
Interest income		
Loans and advances to customers	1,697,131	1,237,756
Due from banks	80,823	9,517
Derivative assets	220,803	71,661
Debt instruments	49,451	33,970
Others	20,023	8,328
	2,068,231	**1,361,232**
Interest expense		
Deposits from banks and customers	927,366	611,657
Saving deposits insurance	8,595	7,765
Funds borrowed	120,214	65,882
Derivative liabilities	252,799	41,543
Obligations under repurchase agreements	12,460	12,829
Securities issued	142,885	87,706
Others	1,537	1,800
	1,465,856	**829,182**
Net interest income	**602,375**	**532,050**

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

29 Fees and Commission Income and Expenses

Fees and commission income for the years ended 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Transfer commissions	2,504	2,357
Insurance commissions	13,337	5,034
Account maintenance fees	3,621	2,496
Asset management fees (*)	3,143	2,657
Commissions from non-cash loans	12,998	10,412
Limit allocation,revision and appraisal fees	21,868	14,523
Others	21,107	11,873
Fees and commission income	**78,578**	**49,352**

(*) Asset management fees relate to fees earned by the Group on investment funds.

Fees and commission expenses for the year ended 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Payment and transaction fees	1,738	1,327
Credit card fees	11,583	7,473
Commissions for debt issued	5,339	3,384
Commissions to correspondent banks	1,965	1,496
Other	12,461	8,209
Fees and commission expense	**33,086**	**21,889**

30 Net Trading Income

	2017	2016
Gains on derivative transactions	51,334	30,323
Foreign exchange gains /(losses)	(21,055)	(10,373)
/ (losses) on debt instruments, net	4,542	6,756
	34,821	**26,706**

31 Other Operating Income

	2017	2016
Intermediary fees	4,560	5,937
Gain on sale of non-current assets held for sale and tangible assets	1,903	1,527
Gain on sale of loans	2,218	9,129
Promissory notes fee	534	775
Others	23,155	23,049
	32,370	**40,417**

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

32 Personnel Expenses

	2017	2016
Wages and salaries	146,000	115,853
Social security premiums	22,365	17,528
Personnel bonuses	7,200	6,800
Employee health insurance expenses	5,716	4,818
Termination and vacation pay expenses	1,181	1,293
Others	27,543	13,396
	210,005	**159,688**

33 Other Expenses

	2017	2016
Rent expenses	35,355	29,697
Taxes other than on income	21,771	16,175
Telecommunication expenses	10,207	7,928
Information technology expenses	7,777	6,169
Consultancy expenses	10,564	9,835
Cleaning expenses	4,816	3,964
Transportation expenses	4,808	3,147
Advertisement expenses	10,830	6,505
Electricity expenses	2,522	2,292
Office supplies	1,974	1,485
Maintenance expenses	2,324	1,632
Others	17,250	17,329
	130,198	**106,158**

34 Subsequent Events

The Bank has completed its Regulation S Only Eurobond issue abroad with US Dollar and having a maturity of 5 years on 24/01/2018. Securities, having a total nominal value of USD 300 million and a maturity of January 25, 2023 and 6% of fixed interest rate with a bi-annual interest payment, have been issued.

As of February 8, 2018, the Bank has obtained necessary permissions to establish an affiliated company in order to provide consultancy services on innovation, creation of new business fields and technologies, investing to financial technology companies, mobile payment, income-expense tracking and money transfer as a result of its application to BRSA.