Fibabanka A.Ş. and Its Subsidiaries

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

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Fibabanka Anonim Şirketi

Report on the audit of the consolidated financial statements

Qualified Opinion

We have audited the consolidated financial statements of Fibabanka Anonim Şirketi (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, 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, except for the effects of matter described in the 'Basis for Qualified Opinion' paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, 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 Qualified Opinion

The accompanying consolidated financial statements as at December 31, 2018 include a general reserve which does not meet the relevant criterias in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" for possible risks provided by the Bank Management for possible results of the circumstances which may arise from possible changes in the economy and market conditions amounting to thousands TL 65,000 with deferred tax effect of thousands TL 14,300. As a result of accounting of aforementioned provision in the current year financial statements, "Retained earnings" and "Net Income for the period" are presented as TL 282,570 thousands and TL 142,770 thousands as of December 31, 2018, respectively.

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 Company 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.

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<table>
<tr><th>Key Audit Matter</th><th>How the Key Audit Matter is addressed in our audit</th></tr>
<tr><td>Transition impact of IFRS 9 "Financial Instruments" Standard and recognition of impairment on financial assets and related significant disclosures</td><td></td></tr>
<tr><td>As disclosed in "Note 3-xx"; as of 1 January 2018, the Bank adopted the IFRS 9 ''Financial Instruments'' standard began to recognize expected credit losses of financial assets in accordance with TFRS 9. We considered the transition to IFRS 9 and impairment of financial assets as a key audit matter since:
Amount of on and off-balance sheet items that are subject to expected credit loss calculation is material to the financial statements.
IFRS 9 transition has an effect on Bank's equity.
There are complex and comprehensive requirements of IFRS 9.
The classification of the financial assets is based on the Bank's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and the Bank uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments.
Policies implemented by the Bank management include compliance risk to the regulations and other practices.
New or re-structured processes of IFRS 9 are advanced and complex.
Judgements and estimates used in expected credit loss calculation are new, complex and comprehensive.
Disclosure requirements of IFRS 9 are comprehensive and complex.</td><td>Our additional audit procedures in addition to our current audit procedures:
Evaluating the appropriateness of accounting policies as to the requirements of IFRS 9, Bank's past experience, local and global practices.
Reviewing and testing of new or re-structured processes which are used to calculate expected credit losses by involving our Information technology and Process audit specialists.
Evaluating the reasonableness of management's key judgements, estimates and data sources used in expected credit loss calculations considering the standard requirements, sectorial, local and global practices.
Reviewing the appropriateness of criteria in order to identify the financial assets having solely payments of principal and interest and checking the compliance to the Bank's Business model.
Assessing the appropriateness of definition of significant increase in credit risk, default criteria, modification, probability of default, loss given default, exposure at default and forward-looking assumptions together with the significant judgements and estimates used in these calculations to regulations and bank's past performance. Evaluating the alignment of those forward-looking parameters to Bank's internal processes where applicable.
Assessing the completeness and the accuracy of the data used for expected credit loss calculation.
Testing the mathematical accuracy of expected credit loss calculation on sample basis.
Evaluating the judgments and estimates used for the individually assessed financial assets.
Evaluating the accuracy and the necessity of post-model adjustments.
Auditing of IFRS 9 disclosures.</td></tr>
<tr><td>Valuation of Derivative Financial Instruments</td><td></td></tr>
<tr><td>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 10" and "Note 23". 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.</td><td>Our audit procedures included among others include reviewing fair valuation policies adopted by Bank Management, re-calculation of fair valuations on sample basis by our experts, assessing the estimations and judgements used in valuation and testing the designing and operating effectiveness of the key controls in the process for fair value determination.</td></tr>
</table>

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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 2019
İstanbul, Türkiye

INDEX

Consolidated Statement of Financial Position as at 31 December 2018

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

	Notes	31 December 2018	31 December 2017
Assets			
Cash and balances with Central Bank	7	1,764,460	2,487,256
Due from banks		1,271,631	696,350
-Due from banks	8	*965,431*	*320,016*
-Money market placements	8	*306,200*	*376,334*
Financial assets at fair value through profit and loss		1,556,556	743,877
-Debt instruments	9	75,800	55,376
-Derivative financial assets	10	1,480,756	688,501
Financial assets measured at fair value through other comprehensive income	11	704,338	766,163
Financial assets measured at amortised cost	12	363,032	--
Loans and advances to customers	13	14,089,614	14,802,842
Derivative financial assets held for hedging	14	--	17,902
Investment property		24,052	4,897
Property and equipment	16	258,165	193,057
Intangible assets	17	35,002	5,949
Deferred tax assets	26	79,155	58,871
Other assets	15	440,106	99,651
Total Assets		**20,586,111**	**19,876,815**
Liabilities			
Deposits from customers	19	10,671,634	11,666,436
Deposits from banks		1,135,691	1,081,350
-Deposits from banks	18	*639,755*	*601,470*
-Obligations under repurchase commitments	18	*495,936*	*479,880*
Funds borrowed	21	1,339,212	2,084,851
Securities issued	22	1,842,585	1,255,066
Derivatives held for trading purpose	23	1,314,414	749,590
Derivative financial liabilities held for hedging	24	201,839	3,664
Subordinated debts	25	1,596,143	1,194,561
Other liabilities and provisions	20	1,161,918	448,072
Total Liabilities		**19,263,436**	**18,483,589**
Equity			
Share capital	27	943,684	943,684
Share premium	27	128,678	128,678
Items that may be reclassified subsequently to profit or loss			
-Unrealized losses on financial assets measured at FVOCI, net of tax	29	(26,572)	(10,899)
Items that will not be reclassified subsequently to profit or loss			
-Actuarial losses on employee termination benefits		(5,743)	(4,636)
Retained earnings	28	282,570	336,345
Equity attributable to owners of the bank		**1,322,617**	**1,393,172**
Non-controlling interest		58	54
Total Shareholders' Equity		**1,322,675**	**1,393,226**
Total Liabilities and Shareholders' Equity		**20,586,111**	**19,876,815**

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

Consolidated Statement of Profit or Loss as at 31 December 2018

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

	Notes	1 January – 31 December 2018	1 January – 31 December 2017
Interest income	32	2,842,409	2,068,231
Interest expense	32	(2,142,424)	(1,465,856)
Net interest income		**699,985**	**602,375**
Fees and commission income	33	164,058	78,578
Fees and commission expenses	33	(37,003)	(33,086)
Net fee and commission income		**127,055**	**45,492**
Net trading income	34	165,487	34,821
Other operating income	35	38,863	32,370
		204,350	**67,191**
Operating income		**1,031,390**	**715,058**
Personnel expenses	36	(243,226)	(210,005)
Depreciation and amortisation	16,17	(19,202)	(14,118)
Impairment reversals /(losses) on loans and advances to customers	13	(405,626)	(359,953)
Other expenses	37	(181,037)	(130,198)
Profit before income tax		**182,299**	**784**
Current tax income/(expense)	26	(117)	(46,186)
Deferred tax income/(expense)	26	(39,412)	46,479
Net Income for the period		**142,770**	**1,077**
Net Income attributable to:			
Equity holders of the Bank		142,766	1,076
Non-controlling interests		4	1
		142,770	**1,077**

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

Consolidated Statement of Other Compehensive Income as at 31 December 2018

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

	1 January-31 December 2018	**1 January-31 December 2017**
Profit for the year	**142,770**	**1,077**
Items that maybe reclassified subsequently to profit or loss		
-Unrealized gains / (losses) on Unrealized losses on financial assets measured at FVOCI, gross	*(19,658)*	*11,694*
-Tax effect of unrealized gains / (losses) on Unrealized losses on financial assets measured at FVOCI	*3,985*	*(2,339)*
Items that will not be reclassified subsequently to profit or loss		
-Actuarial losses on employee termination benefits	*(1,384)*	*(2,041)*
-Tax effect of actuarial losses on employee termination benefits	*277*	*408*
Other comprehensive income / (expense) for the year, net of tax	**(16,780)**	**7,722**
Total comprehensive income for the year	**125,990**	**8,799**
Attributable to:		
Equity Holders of the Bank	125,986	8,798
Non – controlling interest	4	1

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

Consolidated Statement of Changes in Equity as at 31 December 2018

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

	Notes	Share Capital	Share premium	Retained earnings	Items that maybe classified subsequently to profit or loss	Items that will not be reclassified subsequently to profit or loss	Non-controlling Interest	Total
					Unrealized losses on financial assets measured at FVOCI	Actuarial gains / (losses)		
Balances at 1 January 2017		**943,684**	**128,678**	**335,269**	**(20,254)**	**(3,003)**	**53**	**1,384,427**
Share capital increase	27	--	--	--	--	--	--	--
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 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**
Share capital increase	27	--	--	--	--	--	--	--
Impact of adopting IFRS 9 (*)		--	--	(196,541)	--	--	--	(196,541)
Total comprehensive income for the year		--	--	**142,766**	**(15,673)**	**(1,107)**	**4**	**125,990**
Additions to unrealized gains / (losses) on available-for-sale investments, net of deferred tax		--	--	--	(15,673)	--	--	(15,673)
Actuarial losses on employee termination benefits, net of deferred tax		--	--	--	--	(1,107)	--	(1,107)
Net profit for the year		--	--	142,766	--	--	4	142,770
Balances at 31 December 2018		**943,684**	**128,678**	**282,570**	**(26,572)**	**(5,743)**	**58**	**1,322,675**

(*) The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules and the difference between the book value of 1 January 2018 at the date of application reflected to the opening balance of equity.
The explanations about the transition effects to IFRS 9 are described in accounting policy xx.

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

Consolidated Statement of Cash Flows as at 31 December 2018

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

	Notes	1 January-31 December 2018	1 January-31 December 2017
Net profit/(loss) for the year		**142,770**	**1,077**
Adjustments for:			
Depreciation of property and equipment	16	12,970	11,073
Amortization of intangible assets	17	6,280	3,043
Impairment losses on loans and advances		49,109	359,953
Unearned revenue		(9,515)	6,541
Employment termination benefits	20	3,542	3,884
Unused vacation pay provision		507	48
Other provisions (net)		1,038	59
Bonus provision		7,750	7,200
Unrealized gains on financial assets/liabilities		15,673	9,355
Taxation	26	39,529	(293)
Operating profit before changes in operating assets/liabilities		**269,653**	**401,940**
Changes in operating assets and liabilities:			
Net increase in balances with banks and central bank		940,948	(316,874)
Net decrease in financial assets at fair value through profit & loss		800,369	47,924
Net increase in loans		568,435	(3,245,089)
Net increase in other assets		(703,488)	2,316
Net increase in deposits		(1,018,314)	2,484,531
Net increase in other taxes & liabilities		(787,104)	131,961
Employment termination benefits paid	20	(5,309)	(2,720)
Taxes paid		(32,361)	(46,966)
Bonuses paid		(8,157)	(6,085)
Net cash used in operating activities		**24,672**	**(549,062)**
Cash flow from investing activities:			
Purchase of available-for-sale securities		--	(95,050)
Proceeds from sale of available-for-sale securities		59,424	208,641
Purchase of property & equipment	16	(78,303)	(13,803)
Purchase of intangible assets	17	(35,332)	(5,012)
Net cash used in investing activities		**(54,211)**	**94,776**
Cash flow from financing activities:			
Proceeds from borrowing funding loans (net)		587,519	1,051,326
Proceeds from share certificates issued		--	--
Net cash provided by financing activities		**587,519**	**1,051,326**
Net (decrease)/increase in cash & cash equivalents		**557,980**	**597,040**
Cash & cash equivalents at the beginning of the year	7	**1,296,272**	**704,664**
Foreign exchange effect on cash and cash equivalents		233,413	(5,432)
Cash & cash equivalents at the end of the year	7	**2,087,665**	**1,296,272**

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 2018.

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 2018, the Bank's full paid in capital is TL 943,684.

As of 31 December 2018, the Bank has 72 domestic branches and its head office is located at the following address: Esentepe Mah. Büyükdere Cad. No: 129 Şişli / İstanbul (31 December 2017: 80 domestic branches).

1. General Information (continued)

Explanations on Subsidiaries

Fiba Portföy Yönetimi A.Ş.

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 2018.

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.

Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri A.Ş.

Fibabanka launched Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri Anonim Şirketi ("Finberg") which is a 100% owned subsidiary of the Bank, established in 2018 in İstanbul, was consolidated by using full consolidation method in the consolidated financial statements as at 31 December 2018.

Finberg is an investment and financial technology venture. Achieving a first in the Turkish banking industry, Finberg is intended to promote entrepreneurship and financial technologies. Aiming to partner with medium-scale companies and offer consultancy services in areas with growth potential, Fibabanka provides financing and added value to enterprises in the fields of mobile payment, income-expense monitoring and money transfer.

Finberg is to offer customers both conventional banking products and the new products emerging from the combination of financial services and technology. As well, Finberg is designed to reach new customers and extend the Bank's knowledge of existing customers through such technological products, providing services to them with the right products. Furthermore, other purposes include minimizing the high costs and long timelines posed by the provision of products and services, while eliminating the challenges associated with accessing customer information and incorrect information, as encountered in conventional banking products.

Explanations on Subsidiaries (continued)

Fibabanka A.Ş., Fiba Portföy Yönetimi A.Ş. and Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri A.Ş. are together stated as the "Group" in this report.

The Group has 1,602 employees as of 31 December 2018 (31 December 2017: 1,641 employees).

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2018 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2018. The effects of these standards and interpretations on the 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 2018 are as follows:

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018. Entities 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)

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.

In accordance with IFRS 9 Financial Instruments, the Group did not restate prior period financial information and the difference between the prior year end book value and the book value of 1 January 2018 at the date of application is reflected in the opening balance of equity. The impact of IFRS 9 transition on the Group's financial position and performance is disclosed in Note xx.

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 effective applied for annual periods beginning on and after 1 January 2018. The amendments are not applicable for the Group and do 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. The amended Standard will:

(a)-.give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
(b) give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying “IFRS 9 Financial instruments” until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard–IAS 39.

The amendments are effective on and after 1 January 2018. The standard is not applicable for the Group and does 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 applied for annual periods beginning on and after 1 January 2018. The amendments are not applicable for the Group and do 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 not applicaple for the Group and does not have any 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 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 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 applied for annual periods beginning on or after 1 January 2018.

The amendments are not applicaple for the Group and do not have any 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 16 Leases

IFRS 16 Leases standard came out on official gazette numbered 29826 on the date of 16 April 2018, to be implemented in accounting period after the date of 31 December 2018. According to this standard, difference between operational lease and financial lease disappeared so that all leasing transactions will be recognized as right-of-use assets and corresponding liability.

The standard is effective from the periods beginning on or after 1 Jan, 2019. The standard does not have significant 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.

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 urther 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.

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 2019, 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.

Annual Improvements – 2015–2017 Cycle

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

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

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

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 subsidiaries 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 30 May 2019.

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 subsidiaries’ 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 subsidiaries and the portion of the cost of subsidiaries’ capital belonging to the Group are eliminated. All intragroup balances and income and expenses relating to transactions between the Bank and its subsidiaries are eliminated in full on consolidation. Minority shares in the net income of consolidated subsidiaries 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.

3. Significant Accounting Policies (continued)

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 2018.

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.

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

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 2018 and 31 December 2017 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 2018	6.0280	5.2609
31 December 2017	4.5155	3.7719

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

Initial recognition of financial instruments

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

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. At initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

On which category a financial instrument shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss. The Parent Bank tested all financial assets whether their "contractual cash-flows solely represent payments of principal and interest" and assessed the asset classification within the business model.

3. Significant Accounting Policies (continued)

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Parent Bank's business models are divided into three categories:

Business model aimed to hold assets in order to collect contractual cash flows

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Receivables from the Central Bank, banks, money market placements, investments under financial assets measured at amortized cost, large part of the loans, leasing receivables, factoring receivables and other receivables are assessed within this business model.

Business model aimed to collect contractual cash flows and sell financial assets

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Parent Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

Other business models

Financial assets are measured at fair value through profit or loss when they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial Assets Measured at Fair Value Through Profit/Loss are assessed in this business model.

3. Significant Accounting Policies (continued)

a) <u>Financial Assets</u>

Financial assets include cash on hand, contractual rights to receive cash or another financial asset from the counterparty or the right to exchange of financial instruments or equity instrument transactions of the counterparty. Financial assets are classified into three groups as financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost. The Group classifies its financial assets based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments.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.

➢ ***Financial assets measured at fair value through profit or loss***

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

3. Significant Accounting Policies (continued)

➢ ***Financial assets measured at fair value through other comprehensive income***

Financial assets are measured at fair value through other comprehensive income if financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

Financial assets measured at fair value through other comprehensive income are recognized by adding transaction costs to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or loss to be reclassified through profit or loss” under shareholders’ equity. When these securities are collected or disposed of, the accumulated fair value differences reflected in the equity are recognized in the income statement.

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

As of 31 December 2018, total amount of Financial assets measured at fair value through other comprehensive income is TL 704,338 (31 December 2017: TL 766,163), of which TL 498,124 comprises of private bank and corporate bonds denominated in foreign currencies with maturity more than 1 year (31 December 2017: TL 586,308).

➢ ***Financial assets measured at amortized cost***

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

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

The Bank has classified financial assets at fair value through other comprehensive income amounting to TL 153,266 which were previously classified as available-for-sale financial assets to “Financial assets measured at amortized cost” as of January 2018.

- ***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.

- ***Explanations on expected credit loss***

The Parent Bank recognizes expected credit loss allowance for financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Bank recognizes provisions for impairment in accordance with IFRS 9 requirements according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 22 September 2016 numbered 29750. In this framework, as of 31 December 2017, method of provisioning for impairment as set out in accordance with the related legislation of BRSA has been changed by applying the expected credit loss model under IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

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

Stage 1
For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk will be recorded in the amount of 12-month expected credit losses.

Stage 2
In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to Stage 2. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.

Stage 3

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

As part of IFRS 9, expected credit loss models are improved in process of exposure at default, probability of default and loss given default. These models are formed by taking into consideration internal ratings systems, past data and prospective expectations and considering below factors;

- Costumer type (individual, corporate, commercial and SME)
- Product type
- Ratings used as part of internal ratings systems
- Collaterals
- Collection period
- Exposure at default
- Time passed from loan disbursement
- Time to maturity

3. Significant Accounting Policies (continued)

Exposure at Default: Expresses the exposure amount when debtor defaults. It accounts along with the maturity of the borrower.
The amount of additional risk that may occur in case of default is added to the amount of risk and included in the calculations by using the credit conversion rates (CCR) for irrevocable commitments.

Probability of Default: Refers to the probability of default due to the inability of the debtor to fulfill its obligations. 12-month or lifetime estimation is performed according to whether there is an increase in credit risk or not.

Loss Given Default: In the default of the borrower, it is calculated as the expected credit loss to exposure at default. Loss given default models include inputs such as product type, customer segment, collateral structure, customer payment performance.

Makroeconomic Factors: Macroeconomic indicators are taken into account in determining the probability of default component in the expected credit loss calculation. Future macroeconomic forecasts are reflected in the expected credit loss calculations using more than one scenario.

While macroeconomic information is included, models and estimates reflecting the relationships between model risk parameters and macroeconomic variables are taken into consideration. The main macroeconomic indicators that make up these estimation models are the Gross Domestic Product (GDP) and the unemployment rate.

Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

Future expectations are determined based on 2 scenarios, base and negative. Each scenario has predetermined weights, and the final provisions are calculated by weighting on these probabilities.

Calculation of Expected Loss Period: In determining the lifetime expected credit loss, the period in which the Bank will be exposed to credit risk is taken into consideration. Behavioral maturity analysis was performed on credit cards and overdraft accounts. The maximum period for which credit losses are to be recognized, except for credit cards and other rotative loans, is the contractual life of the financial instrument unless a legal right is required to recall the loan.

Significant Increase in Credit Risk: Due to the significant increase in credit risk, the Bank performs quantitative and qualitative assessments to determine the financial assets to be classified as Stage 2 (Significant Increase in Credit Risk).
Within the scope of the quantitative assesments made for the corporate segment, the Bank compares the change between the starting date and the date of the report by taking into account the time passed since the opening date. In order to make this comparison, the Bank specifies threshold values to determine which changes are accepted as significant change. The decision to classify financial assets as Stage 2 due to a significant increase in credit risk by exceeding these threshold values is taken by the opinion of the Credit Department.
Within the scope of qualitative evaluations, financial assets included in the scope of close monitoring as of the reporting date are classified as Stage 2.

- ***Derecognition of Financial Assets***

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. When the Parent Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

b) <u>Financial Liabilities</u>

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 Group 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. 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 are valued at fair-value using market prices or pricing models subsequent to initial recognition and are presented in "derivatives held for trading purpose or derivatives held for hedging 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.

3. Significant Accounting Policies (continued)

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.

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.

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

3. Significant Accounting Policies (continued)

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 2018, the Group's severance payment provision is calculated by an actuarial firm and the actuarial loss of TL 5,743 (net of deferred taxes) is accounted for under Equity (31 December 2017: Actuarial loss of TL 4,636).

The principal actuarial assumptions used at 31 December 2018 and 31 December 2017 are as follows;

	31 December 2018	31 December 2017
	%	%
Discount rate	13.5	11.9
Inflation rate	6.0	8.9

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2018 was TL 5,434.42 (full basis) (31 December 2017: TL 4,732.48 (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.

3. Significant Accounting Policies (continued)

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.

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.

In accordance with the provisional article, added to Corporate Tax Law, corporate tax, which is 20% for the year 2017, has changed 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.

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

xx. Explanations on IFRS 9 financial instruments standard

Explanations on the effect of the Group's application of IFRS 9 is shown below.

a. Classification and measurement of financial assets

	Before IFRS 9		In scope of IFRS 9	
	Measurement base	**Book value**	**Measurement base**	**Book value**
Financial assets		**31 December 2017**		**1 January 2018**
Cash and Balances with the Central Bank	Amortized cost	2,487,256	Amortized cost	2,487,256
Banks and Money Markets	Amortized cost	696,029	Amortized cost	696,029
Securities	Fair value through profit or loss	55,376	Fair value through profit or loss	55,376
Securities	Fair value through other comprehensive income	766,163	Fair value through other comprehensive income	612,897
Securities	Amortized cost	--	Amortized cost	169,084
Derivative Financial Assets	Fair value through profit or loss	688,501	Fair value through profit or loss	688,501
Loans (Gross)	Amortized cost	15,226,232	Amortized cost	15,226,232

b. Reconciliation of statement of financial position balances from TAS 39 to IFRS 9

Financial assets	**Book value before IFRS 9 December 31, 2017**	**Reclassifications**	**Remeasurements**	**Book value after IFRS 9 January 1, 2018**
Fair value through other comprehensive income				
Balance before reclassification (available for sale)	766,163	--	--	--
Valuation difference on available for sale fin. asset				
Reclassified as financial asset measured at amortized cost	--	(153,266)	--	--
Balance after reclassification	--	--	--	612,897
Measured at amortized cost				
Balance before classification (held-to-maturity)	--	--	--	--
Reclassified to fair value through other comprehensive income	--	153,266	15,818	--
Balance after reclassification	--	--	--	169,084

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

xx. Explanations on IFRS 9 financial instruments standard (continued)

c. Reconciliation of the opening balances of expected credit losses as per IFRS 9

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

	Book Value Before IFRS 9 December 31, 2017	Remeasurements	Book Value After IFRS 9 January 1, 2018
Loans	**420,839**	**230,314**	**651,153**
Stage 1	38,157	71,573	109,730
Stage 2	202,004	(9,276)	192,728
Stage 3	180,678	168,017	348,695
Financial Assests (*)	**--**	**3,673**	**3,673**
Non-Cash Loans	**2,551**	**17,989**	**20,540**
Stage 1 and 2	2,551	12,694	15,245
Stage 3	--	5,295	5,295
Total	**423,390**	**251,976**	**675,366**

(*) Within the scope of IFRS 9, provisions for securities, banks and money market receivables, measured at amortised cost and fair value through other comprehensive income.

d. IFRS 9 transition effects on equity

Previous period financials are not restated, the difference between the book value of 1 January 2018 at the date of application has been reflected into the opening balance of equity.

Negative difference of TL 251,976 between the provision for impairment of the previous period of Group and the expected credit loss that is calculated in accordance with IFRS 9 as of 1 January 2018 is classified as retained earnings under shareholders' equity. Within this scope, deferred tax assets amounting to TL 55,435 have been reflected into the opening financials of 1 January 2018 and the related amount has been classified under retained earnings under shareholders' equity.

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

4. 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.

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 and Finberg, the Bank's consolidated subsidiaries, are operating in the area of portfolio management and entrepreneurship, new business fields and technologies respectively.

Major financial statement items according to business segments:

1 January - 31 December 2018	**Corporate & Commercial Banking**	**Retail Banking**	**Treasury & Head Office**	**Total**
Operating income	473,714	281,862	275,814	1,031,390
Profit before tax	211,173	(126,624)	97,750	182,299
Tax income				(39,529)
Net profit				**142,770**
31 December 2018				
Segment assets	10,541,060	3,528,275	6,516,776	20,586,111
Unallocated assets				--
Total assets				**20,586,111**
Segment liabilities	2,653,055	8,020,416	8,589,965	19,263,436
Unallocated liabilities				--
Equity				1,322,675
Total liabilities and equity				**20,586,111**

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 charge				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**

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.

	31 December 2018
Performing loans	12,350,248
Loans under close monitoring	1,687,283
Non-performing loans	621,863
Gross	**14,659,394**
Specific provisions for Stage 3	295,835
Generic provisions for Stage 1 and Stage 2	273,945
Total	**14,089,614**

	31 December 2017
Performing loans	13,828,057
Loans under close monitoring	962,602
Non-performing loans	468,493
Gross	**15,226,232**
Specific allowance	180,678
Collective allowance	242,712
Total	**14,802,842**

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.

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

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

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

	31 December 2018		
Cash Loans	**Performing (*)**	**Non - Performing (**)**	**Total**
Secured loans	13,967,783	350,220	14,318,003
Secured by cash collateral	405,626	--	405,626
Secured by mortgages	3,251,440	295,568	3,547,008
Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes)	10,310,717	54,652	10,365,369
Unsecured loans	69,748	271,643	341,391
Total Cash Loans	**14,037,531**	**621,863**	**14,659,394**

(*) Net-off of unearned comission income.

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

	31 December 2017		
Cash Loans	**Performing (*)**	**Non - Performing (**)**	**Total**
Secured loans	14,689,347	225,308	14,914,655
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

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

Non-Cash Loans	**31 December 2018**	**31 December 2017**
Secured loans	833,100	2,003,112
Secured by cash collateral	5,602	3,771
Secured by mortgages	66,753	39,413
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	760,745	1,959,928
Unsecured loans	38,450	27,882
Total Non-Cash Loans	**871,550**	**2,030,994**

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 2018	**31 December 2017**
Consumer	1,095,951	862,796
Manufacturing	3,068,081	3,045,077
Service	6,139,772	7,055,034
Construction	2,625,382	2,623,490
Agriculture and stockbreeding	405,235	553,912
Other	703,110	617,430
Total performing loans and advances to customers	**14,037,531**	**14,757,739**

(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 2018	31 December 2017
Balances with the Central Bank (including reserve deposits)(*)	1,626,231	2,369,144
Deposits with and loans due from banks and other financial institutions	1,272,022	696,350
Financial assets at fair value through profit and loss	75,807	743,877
Financial assets available for sale	707,732	766,163
Financial Assets Measured at Amortised Cost	363,099	--
Loans and receivables	14,659,394	15,226,232
Total	**18,704,285**	**19,801,766**
Contingent liabilities	871,550	2,030,994
Commitments	921,579	666,245
Total	**1,793,129**	**2,697,239**
Total credit risk exposure	**20,497,414**	**22,499,005**

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

Information by major sectors and type of counterparties

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Current Period	Loans		Provisions
	Impaired		
Major Sector / Counterparties	**Significant Increase in Credit Risk (Stage 2)**	**Credit Impaired (Stage 3)**	**Expected Credit Losses**
Agriculture	**117,581**	**28,954**	**24,907**
Farming and Stockbreeding	84,806	20,209	14,369
Forestry	30,972	8,419	10,223
Fishery	1,803	326	315
Manufacturing	**212,166**	**132,476**	**89,951**
Mining and Quarrying	55,125	51,428	25,448
Production	138,816	80,439	58,596
Electricity, Gas and Water	18,225	609	5,907
Construction	**292,345**	**87,393**	**77,341**
Services	**698,835**	**305,229**	**184,011**
Wholesale and Retail Trade	242,642	132,174	100,186
Accommodation and Dining	93,911	109,878	25,194
Transportation and Telecommunication	172,576	13,042	35,811
Financial Institutions	6,551	54	953
Real Estate and Rental Services	119,667	41,351	15,565
Self-Employment Services	9,780	2,348	2,641
Educational Services	19,193	1,132	1,304
Health and Social Services	34,515	5,250	2,357
Other	**366,356**	**67,811**	**89,123**
Total	**1,687,283**	**621,863**	**465,333**

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

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

Credit quality of loans and receivables as of 31 December 2018 and 2017 are as follows;

31 December 2018	**Neither past due nor impaired**	**Past due but not impaired**	**Individually impaired (gross)**	**Total**
Loans and receivables				
Commercial	11,894,827	958,389	568,469	13,421,685
Consumer	1,023,669	63,851	42,571	1,130,091
Credit cards	84,390	12,405	10,823	107,618
Total	**13,002,886**	**1,034,645**	**621,863**	**14,659,394**

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**

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

	31 December 2018	**31 December 2017**
Loans and receivables		
Commercial	363,819	417,273
Consumer	5,087	4,672
Total	**368,906**	**421,945**

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

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

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

31 December 2018	Less than 31 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	380,982	385,810	191,597	958,389
Consumer	10,081	30,453	23,317	63,851
Credit cards	8,789	3,615	1	12,405
Total	**399,852**	**419,878**	**214,915**	**1,034,645**

31 December 2017	Less than 31 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	143,577	131,852	117,269	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**	**135,305**	**446,986**

(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 2018	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	1,135,691	1,138,869	88,411	555,653	449,791	45,014	--	--
Deposits from customers	10,671,634	10,907,453	703,830	5,660,285	3,237,711	1,244,665	59,210	--
Borrowings from banks	1,339,212	1,584,779	--	199,722	204,774	878,979	301,303	--
Securities issued	1,842,585	2,176,361	--	212,480	346,140	39,139	1,578,602	--
Subordinated loans	1,596,143	2,674,528	--	--	60,592	60,592	484,738	2,068,606
Total	**16,585,265**	**18,481,990**	**792,241**	**6,628,140**	**4,299,008**	**2,268,389**	**2,423,853**	**2,068,606**

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**

Maturity analysis of balance sheet items is as follows:

As at 31 December 2018	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	730,345	1,034,217	--	--	--	(102)	1,764,460
Due from banks	241,334	1,030,688	--	--	--	(391)	1,271,631
Financial assets measured at fair value through profit and loss	--	132,355	59,946	242,606	1,121,656	(7)	1,556,556
Financial assets measured at fair value through other comprehensive income	2,713	--	--	176,921	528,098	(3,394)	704,338
Financial sssets measured at amortised cost	--	--	--	--	363,099	(67)	363,032
Loans and advances to customers	--	3,024,377	2,303,579	4,832,973	3,876,602	52,083	14,089,614
Other assets	--	--	--	--	--	836,480	836,480
Total assets	**974,392**	**5,221,637**	**2,363,525**	**5,252,500**	**5,889,455**	**884,602**	**20,586,111**
Liabilities:							
Deposits from banks	88,411	555,088	447,178	45,014	--	--	1,135,691
Deposits from customers	703,832	5,634,708	3,164,948	1,121,893	46,253	--	10,671,634
Financial liabilities at fair value through profit and loss	--	106,775	52,553	114,431	1,040,655	--	1,314,414
Funds borrowed	--	195,820	201,458	750,416	191,518	--	1,339,212
Securities issued	--	204,462	333,493	--	1,304,630	--	1,842,585
Subordinated debts	--	--	32,472	--	1,563,671	--	1,596,143
Other liabilities and equity	--	39,477	--	--	201,839	2,445,116	2,686,432
Total liabilities	**792,243**	**6,736,330**	**4,232,102**	**2,031,754**	**4,348,566**	**2,445,116**	**20,586,111**
Net liquidity surplus/(gap)	**182,149**	**(1,514,693)**	**(1,868,577)**	**3,220,746**	**1,540,889**	**(1,560,514)**	**--**
As at 31 December 2017							
Total assets	711,878	4,213,061	2,044,497	6,022,384	6,477,467	407,528	19,876,815
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)**	**--**

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 (continued)

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 2018 and 31 December 2017;

31 December 2018:	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	1,031,089	--	--	733,371	1,764,460
Due from banks	1,030,688	--	--	240,943	1,271,631
Financial assets at FVTPL	214,439	242,369	1,099,755	(7)	1,556,556
Financial assets measured at fair value through other comprehensive income (FVOCI)	--	179,034	525,985	(681)	704,338
Financial assets measured at amortised cost	20,635	--	342,464	(67)	363,032
Loans and advances to customers (*)	6,880,465	2,911,807	4,245,259	--	14,037,531
Financial liabilities					
Derivatives held for trading	159,327	114,431	1,040,656	--	1,314,414
Deposits from banks	1,002,266	45,014	--	88,411	1,135,691
Deposits from customers	8,799,656	1,121,893	46,253	703,832	10,671,634
Funds borrowed	823,434	515,778	--	--	1,339,212
Securities issued	537,955	--	1,304,630	--	1,842,585
Subordinated debts	32,472	--	1,563,671	--	1,596,143

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

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)

(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 2018 and 31 December 2017:

31 December 2018	EUR %	USD %	Other Currencies %	TL %
Cash and balances with the Central Bank	--	2.00	--	13.00
Financial assets at FVTPL	2.04	5.34	--	24.37
Financial assets measured at FVOCI	3.43	5.39	--	8.38
Financial assets measured at amortised cost	5.38	--	--	8.96
Due from banks	--	--	--	24.11
Loans and advances to customers	6.25	7.91	5.64	24.82
Deposits from banks	--	2.45	--	22.46
Funds borrowed	3.15	4.00	3.71	10.76
Repurchase agreements	0.80	4.53	--	--
Deposits from customers	1.66	4.65	1.53	23.96
Securities issued	--	6.00	--	24.76
Subordinated debts	--	7.75	--	--
31 December 2017				
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
Funds borrowed	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	--	--

(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 2018			2017
	Shock Applied (+ / - x bps)	**Gains/ Losses**	**Gains / Equity - Losses / Equity**	**Gains / Equity - Losses / Equity**
TRY	500	32,101	1.00%	(8.69)%
TRY	-400	(37,396)	(1.16)%	8.01%
USD Dollar	200	67,941	2.11%	2.22%
USD Dollar	-200	(74,103)	(2.30) %	(2.47)%
EURO	200	(104,903)	(3.26) %	(4.21)%
EURO	-200	116,840	3.63%	4.67%
Total (For Positive Shocks)		**(4,861)**	**(0.15) %**	**(10.69)%**
Total (For Negative Shocks)		**5,341**	**0.17%**	**10.20%**

(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 2018 and 31 December 2017, the Group's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	2018				
	EUR	**USD**	**Other**	**Total**	**Total in 2017**
Foreign currency denominated assets(*):					
Cash and balances with Central Bank	376,547	743,568	240,794	1,360,909	2,211,655
Due from banks	41,326	185,729	7,050	234,105	648,215
Financial assets at FVTPL	836	4,479	--	5,315	4,990
Financial assets measured at FVOCI	116,427	580,512	--	696,939	581,407
Financial Assets measured at amortised cost	174,168	--	--	174,168	--
Loans and advances to customers	3,703,582	1,548,282	36,554	5,288,418	5,228,920
Other assets	961	308	--	1,269	2,617
	4,413,847	**3,062,878**	**284,398**	**7,761,123**	**8,677,804**
Foreign currency denominated liabilities(*):					
Deposits from banks	190,101	810,813	8,348	1,009,262	996,314
Funds borrowed	465,813	2,197,933	4,024	2,667,770	2,063,062
Deposits from customers	553,442	3,871,753	59,958	4,485,153	5,376,248
Subordinated debts	--	1,596,143	--	1,596,143	1,194,561
Other liabilities	16,226	314,137	282	330,645	97,660
	1,225,582	**8,790,779**	**72,612**	**10,088,973**	**9,727,845**
Net on-balance sheet position	3,188,265	(5,727,901)	211,786	(2,327,850)	(1,050,041)
Net off-balance sheet position	(3,178,584)	5,939,735	(240,214)	2,520,937	957,561
Net position	**9,681**	**211,834**	**(28,428)**	**193,087**	**(92,480)**

(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 2018		**31 December 2017**	
	Profit or Loss	**Equity**	**Profit or Loss**	**Equity**
USD	21,183	18,372	(4,158)	(4,215)
EUR	968	1,158	(7,290)	(7,012)
Other currencies	(2,843)	(2,843)	2,200	2,200
Total, net	**19,308**	**16,687**	**(9,248)**	**(9,027)**

(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)	1,159,043	1,239,245	1,159,043	1,238,833
Capital Requirement for Market Risk (CRMR)	72,931	25,840	72,931	25,840
Capital Requirement for Operational Risk (CROR)	88,911	70,961	89,171	71,170
Equity	3,215,081	2,687,405	3,215,203	2,687,385
Equity/((CRCR+MRCR+ORCR) * 12.5 * 100)	19.47%	16.09%	19.47%	16.09%

(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 2018	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	--	1,764,460	--	1,764,460	1,764,460
Due from banks	--	1,271,631	--	1,271,631	1,271,631
Financial assets at FVTPL	1,556,556	--	--	1,556,556	1,556,556
Financial assets measured at FVOCI	704,338	--	--	704,338	704,338
Financial assets measured at amortised cost	363,032	--	--	363,032	332,424
Loans and advances to customers:	--	--	--	--	--
Measured at fair value	--	1,516,819	--	1,516,819	1,516,819
Measured at amortized cost	--	12,572,795	--	12,572,795	12,308,142
	2,623,926	**17,125,705**	**--**	**19,749,631**	**19,454,370**
Derivatives held for trading	1,314,414	--	--	1,314,414	1,314,414
Deposits from banks	--	--	1,135,691	1,135,691	1,135,691
Funds borrowed	--	--	1,339,212	1,339,212	1,339,212
Deposits form customers	--	--	10,671,634	10,671,634	10,671,634
Securities issued	--	--	1,842,585	1,842,585	1,842,585
Subordinated debts	--	--	1,596,143	1,596,143	1,596,143
	1,314,414	**--**	**16,585,265**	**17,899,679**	**17,899,679**

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
Funds borrowed	--	--	2,084,851	2,084,851	2,084,851
Deposits from 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**

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:

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

6. Fair Value of Financial Instruments (continued)

• 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;

• 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 2018			31 December 2017		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Financial assets at fair value through profit and loss	75,800	1,480,756	--	55,376	688,501	--
Financial assets measured at FVOCI	701,625	2,713	--	764,436	1,727	--
Loans and advances to customers	--	14,089,614	--	--	14,888,778	--
Financial Liabilities						
Deposit from banks & customers	--	11,807,325	--	--	12,747,786	--
Funds borrowed	--	1,339,212	--	--	2,084,851	--
Securities issued	--	1,842,585	--	--	1,255,066	--
Subordinated debts	--	1,596,143	--	--	1,194,561	--
Derivatives held for trading	--	1,314,414	--	--	749,590	--
Derivatives used for hedging purposes	--	201,839	--	--	3,664	--

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

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

7. Cash and Balances with Central Bank

At 31 December 2018 and 31 December 2017, cash and balances with the Central Bank are as follows:

	31 December 2018	31 December 2017
Cash on hand	138,331	118,112
Reserve deposits at the Central Bank-unrestricted	877,366	516,966
Reserve deposits at the Central Bank-restricted	748,865	1,852,178
Expected credit loss	(102)	--
Cash and balances with the Central Bank	**1,764,460**	**2,487,256**
Due from other banks	**1,272,022**	**696,350**
Less: Reserve deposits-restricted	(748,865)	(1,852,178)
Less: Restricted deposits	(199,562)	(35,156)
Expected credit loss	(391)	--
Cash and cash equivalents in the statements of cash flows	**2,087,665**	**1,296,272**

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 2018, reserve deposit ratios for Turkish Lira and foreign currency deposits are 1.5%-8% and 4%-20% (31 December 2017: 4%-10.5% and 4%-24%). Restricted reserve deposits are not available for the daily business of the Group. As of 31 December 2018, interest rate for TL and USD reserve deposits are 13% and 4% respectively. (31 December 2017: 4.00% for TL reserves and 1.25% for USD reserves).

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

8. Due from Banks

At 31 December 2018 and 31 December 2017, due from banks are as follows:

	31 December 2018	31 December 2017
Turkish Lira	6,929	3,087
Foreign Currency	234,405	78,377
Demand	**241,334**	**81,464**
Turkish Lira	724,480	45,048
Foreign Currency	--	193,504
Time	**724,480**	**238,552**
Turkish Lira	306,208	--
Foreign Currency	--	376,334
Money market placements	**306,208**	**376,334**
Expected credit loss	**(391)**	**--**
Total due from banks	**1,271,631**	**696,350**

As at 31 December 2018, 2 days maturity and 23.85% interest rate for TL currency time placements (31 December 2017: 12.75%). As at 31 December 2018, there is no foreign currency time placements (31 December 2017: 4 days maturity and 0.31% interest rate). As at 31 December 2018, 2 days maturity and 24.81% interest rate for TL currency money market placements (31 December 2017: none). As at 31 December 2018: there is no foreign currency money market placements (31 December 2017: 10 days maturity and 0.11% interest rate). The Group has TL 199,562 restricted deposit accounts for the derivative contracts with the banks abroad (31 December 2017: TL 35,156).

9. Financial assets at fair value through profit and loss

At 31 December 2018 and 31 December 2017, financial asset at FVTPL are as follows:

	31 December 2018			31 December 2017		
	Pledged	Non-pledged	Total	Pledged	Non-pledged	Total
Debt instruments						
Government bonds	21,946	156	22,102	18,295	154	18,449
Eurobonds	--	3,986	3,986	--	4,177	4,177
Corporate and bank bonds	--	1,329	1,329	--	814	814
Investment fund		48,390	48,390		31,936	31,936
Expected credit loss	(4)	(3)	(7)	--	--	--
Total	**21,942**	**53,858**	**75,800**	**18,295**	**37,081**	**55,376**

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

9. Financial assets at fair value through profit and loss (continued)

As of 31 December 2018, government securities with carrying values of TL 22,102 (31 December 2017: TL 18,295) 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 2018 there is no pledged financial asset subject to repo transactions (31 December 2017: None).

TL 48,390 (31 December 2017: TL 31,936) of debt securities is investment fund, TL 21,905 (31 December 2017: TL 18,237) 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 24.37%, 2.04% and 5.34% respectively (31 December 2017: 14.70%, 2.00% and 5.29% respectively).

10. Derivative financial assets

	31 December 2018			31 December 2017		
	Pledged	**Non-pledged**	**Total**	**Pledged**	**Non-pledged**	**Total**
Derivative financial assets						
-Forwards	--	98,585	98,585	--	53,648	53,648
-Currency swaps	--	1,015,077	1,015,077	--	414,488	414,488
- Options	--	367,094	367,094	--	220,365	220,365
Total	**--**	**1,480,756**	**1,480,756**	**--**	**688,501**	**688,501**

11. Financial assets measured at FVOCI

	31 December 2018	**31 December 2017**
Debt instruments		
Share certificates	2,713	1,727
Corporate and bank bonds	677,849	584,581
Government bonds	27,170	179,855
Expected credit loss	(3,394)	--
Total financial assets available for sale	**704,338**	**766,163**

As of 31 December 2018, TL 2,113 of financial assets measured at FVOCI have floating interest rates whereas the rest of the debt securities have fixed interest rates (31 December 2017: TL 1,817).

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

12. Financial assets measured at amortised cost

	31 December 2018	31 December 2017
Debt instruments		
Corporate and bank bonds	--	--
Government bonds	363,099	--
Expected credit loss	(67)	--
Total financial assets available for sale	**363,032**	**--**

13. Loans and Advances to Customers

At 31 December 2018 and 31 December 2017, loans and advances to customers are as follows:

Consumer loans and individual credit cards	**31 December 2018**	**31 December 2017**
Consumer loans-TL		
Real estate loans	375,968	370,519
Vehicle loans	2,431	4,667
General purpose loans	642,013	416,478
Others	--	--
Consumer loans FC and FC Indexed		
Real estate loans	39,714	48,958
Vehicle loans	--	--
General purpose loans	956	1,286
Individual credit cards-TL		
With installment	1,298	1,316
Without installment	7,073	6,597
Individual credit cards-FC		
With installment	--	--
Without installment	60	40
Personnel loans	**3,779**	**3,803**
Overdraft account-TL	**22,659**	**9,132**
	1,095,951	**862,796**
Commercial loans and corporate credit cards		
Commercial loans with installments-TL		
Real estate loans	2,432	6,445
Vehicle loans	44,396	68,327
General purpose loans	2,996,172	4,580,850
Commercial loans with installments-FC Indexed		
Real estate loans	278	407
Vehicle loans	21,782	18,971
General purpose loans	121,593	180,852
Corporate credit cards-TL		
With installment	10,414	22,515
Without installment	77,951	85,175
Overdraft accounts-TL	106,796	76,541
Spot loans	2,364,345	1,279,477
Revolving loans	2,186,641	2,396,396
Investment loans	92,976	113,616
Export loans	127,313	277,235
Other loans	4,820,294	4,821,056
	12,973,383	**13,927,863**
Total performing loans	**14,069,334**	**14,790,659**
Non-performing loans	**621,863**	**468,493**
Unearned commission income	**(31,803)**	**(32,920)**
Total gross loans	**14,659,394**	**15,226,232**
Allowance for loan losses	(569,780)	(423,390)
Loans and advances to customers	**14,089,614**	**14,802,842**

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

13. Loans and Advances to Customers (continued)

Information on expected credit losses

	Stage 1	Stage 2	Stage 3
Balance at 1 January	40,708	202,005	180,678
IFRS 9 effect	69,022	(9,277)	168,017
Beginning of period (1 January 2018)	**109,730**	**192,728**	**348,695**
Transfers to Stage 1	1,212	(1,212)	--
Transfers to Stage 2	(15,321)	15,321	--
Transfers to Stage 3	(3,165)	(130,484)	133,649
Provision for the year	11,991	93,145	234,052
Amounts written off			(420,561)
Period end (31 December 2018)	**104,447**	**169,498**	**295,835**

Expected Credit Loss Measurement of On-Balance Sheet Financial Assets

	Carrying Amount				Expected Credit Loss			
	Stage I	Stage II	Stage III	Total	Stage I	Stage II	Stage III	Total
Cash and balances with Central Bank	1,764,562	--	--	**1,764,562**	102	--	--	**102**
Due from banks	1,272,022	--	--	**1,272,022**	391	--	--	**391**
Financial assets at FVTPL	75,807	--	--	**75,807**	7	--	--	**7**
Financial assets available for sale	707,732	--	--	**707,732**	3,394	--	--	**3,394**
Financial assets measured at amortised cost	363,099	--	--	**363,099**	67	--	--	**67**
Derivative assets held for risk management	1,480,756	--	--	**1,480,756**	--	--	--	**--**
Loans and advances to customers	12,350,248	1,687,283	621,863	**14,659,394**	104,447	169,498	295,835	**569,780**

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

14. Derivative Financial Assets Held For Hedging

At 31 December 2018 and 31 December 2017, derivative financial assets held for hedging purposes are as follows:

	31 December 2018		31 December 2017	
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**	--

15. Other Assets

At 31 December 2018 and 31 December 2017, other assets comprised the following items:

	31 December 2018	31 December 2017
Check clearance balance	165,706	25,803
Prepaid commissions	19,636	21,255
Prepaid rent	1,503	1,846
Other prepaid expenses	9,418	6,955
Non-current assets held forclosure (*)	222,731	26,505
Cash guarantees given	1,029	748
Advances given	966	627
Other	19,117	15,912
	440,106	**99,651**

(*) Certain non-current assets primarily related to the collaterals collected on non-performing loans are classified as other assets if they don't meet IFRS 5 criteria.

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

	2018	2017
Opening balance, 1 January	**26,505**	**4,619**
Additions	226,987	28,242
Disposal	(30,761)	(6,356)
Balance at 31 December	**222,731**	**26,505**

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

16. Property and Equipment

Movement in property and equipment during the year ended 31 December 2018 is as follows:

	Premises	Furniture, fixture and equipment	Total
Balance at 1 January 2018:			
Cost	171,563	88,967	260,530
Accumulated amortization	(4,683)	(62,790)	(67,473)
Opening net book amount	**166,880**	**26,177**	**193,057**
Additions	51,534	26,769	78,303
Disposals (net)	(46)	(179)	(225)
Depreciation charge	(1,813)	(11,157)	(12,970)
Balance at 31 December 2018:	**216,555**	**41,610**	**258,165**

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**

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

17. Intangible Assets

Movement in intangible assets during the year ended 31 December 2018 is as follows:

	Software	Other	Carrying Value
Balance at 1 January 2018:			
Cost	50,028	5,955	55,983
Accumulated amortization	(44,080)	(5,954)	(50,034)
Opening net book amount	**5,948**	**1**	**5,949**
Additions	35,333	--	35,333
Disposals	--	--	--
Amortization charge	(6,279)	(1)	(6,280)
Balance at 31 December 2018:	**35,002**	**0**	**35,002**

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**

18. Deposits from Banks

At 31 December 2018 and 31 December 2017, deposits from banks comprised the following items:

	31 December 2018	31 December 2017
Time deposits in FC	431,630	387,134
Time deposits in TL	119,715	83,696
Obligations under repurchase commitments from banks in FC	495,936	476,377
Obligations under repurchase commitments from banks in TL	--	--
Demand deposits in FC	81,695	132,807
Demand deposits in TL	6,715	1,336
	1,135,691	**1,081,350**

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

19. Deposits from Customers

At 31 December 2018 and 31 December 2017, deposits from customers comprised the following items:

	31 December 2018			31 December 2017		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Saving Deposits	**491,528**	**8,464,103**	**8,955,631**	**414,550**	**8,461,168**	**8,875,718**
FC Deposits	395,655	4,077,183	4,472,838	339,684	5,031,705	5,371,389
TL Deposits	95,873	4,386,920	4,482,793	74,866	3,429,463	3,504,329
Commercial deposits	**197,420**	**1,415,384**	**1,612,804**	**338,631**	**2,287,841**	**2,626,472**
Public sector and other inst. deposit	**2,516**	**88,315**	**90,831**	**45,496**	**113,892**	**159,388**
Precious metals	12,368	--	12,368	4,858	--	4,858
Total deposits from customers	**703,832**	**9,967,802**	**10,671,634**	**803,535**	**10,862,901**	**11,666,436**

20. Other Liabilities and Provisions

At 31 December 2018 and 31 December 2017, other liabilities comprised of the following items:

	31 December 2018	**31 December 2017**
Check clearance account	298,400	62,010
Blocked accounts	368,192	199,482
Miscellaneous payables	319,478	99,450
Taxes and duties withheld	39,376	36,357
Unused vacation pay liability and personnel bonus accrual	12,143	9,896
Payables to consultants and suppliers	10,749	3,397
Blocked cheques	644	9,859
Other	15,580	9,113
Other liabilities	**1,064,562**	**429,564**
Provision for taxes (Note 22)	--	5,897
Employee termination benefits	11,116	11,497
Provision for possible losses	65,000	--
Expected loss for off-balance sheet positions	19,084	--
Provision for lawsuits	2,156	1,114
Provisions	**97,356**	**18,508**
Total	**1,161,918**	**448,072**

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

20. 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 5,434.42 (full TL) and TL 4,732.48 (full TL) at 31 December 2018 and 2017, 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:

	2018	2017
Opening, 1 January	11,497	8,292
Current service cost	1,990	3,146
Interest cost	1,552	738
Benefits paid	(5,309)	(2,720)
Actuarial losses on employee termination benefits	1,386	2,041
Closing, 31 December	**11,116**	**11,497**

21. Borrowings from Banks

Borrowings from banks as of 31 December 2018 and 2017 comprised the following items:

	31 December 2018	31 December 2017
Borrowing from Banks		
Turkish Lira	10,298	21,789
Foreign Currency	1,328,914	2,063,062
	1,339,212	**2,084,851**

Syndicated loan of EUR 94.6 million and USD 30 million which was due in December 2018 was repaid.

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

22. Securities Issued

31 December 2018	TL		FC	
	Short Term	Medium and Long Term	Short Term	Medium and Long Term
Nominal	519,481	--	--	1,304,630
Carrying Amount	503,729	--	--	1,338,856

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

23. Derivatives Held for Trading Purpose

At 31 December 2018 and 31 December 2017, derivative liabilities held for trading are as follows:

	31 December 2018	31 December 2017
Derivatives held for trading		
- Forwards	101,503	43,928
- Swaps	846,126	484,579
- Options	366,785	221,083
Total financial liabilities at FVTPL	**1,314,414**	**749,590**

24. Derivative Financial Liabilities Held For Hedging

At 31 December 2018 and 31 December 2017, derivative financial liabilities held for hedging purposes are as follows:

	31 December 2018		31 December 2017	
Derivative financial liability held for hedging	**TL**	**FC**	**TL**	**FC**
Fair Value Hedge	201,839	--	3,664	--
Cash Flow Hedge	--	--	--	--
Foreign Net Investment Hedge	--	--	--	--
Total	**201,839**	**--**	**3,664**	**--**

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

25. Subordinated Debts

31 December 2018		
	TL	**FC**
Debt instruments subject to common equity	--	--
Subordinated loans	--	--
Subordinated debt instruments	--	--
Debt instruments subject to Tier 2 equity	--	--
Subordinated loans	--	--
Subordinated debt instruments	--	1,596,143
Total	**--**	**1,596,143**

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

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

26. Taxation

The Bank and its subsidiaries are 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) has been 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 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:

	2018	**2017**
Total tax liability	--	46,149
Prepaid taxes	--	(40,252)
Provision for taxes	**--**	**5,897**

For the years ended 31 December 2018 and 2017, taxation comprised the following:

	2018	**2017**
Current tax charge	(117)	(46,186)
Deferred tax benefit / (charge)	(39,412)	46,479
Total	**(39,529)**	**293**

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

26. 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:

	2018	2017
Profit before income tax	**182,299**	**784**
At statutory income tax rate	(40,106)	(157)
Nondeductible expenses	(810)	(424)
Other tax exempt income	435	297
Other temporary differences	952	577
Taxation	**(39,529)**	**293**

Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2018 and 31 December 2017 are attributable to the items detailed in the table below:

	31 December 2018	31 December 2017
Deferred tax assets/ liabilities		
Valuation of financial assets	6,710	3,278
Statutory losses carried forward	23,457	--
Allowance for loan losses	75,366	49,586
Reserve for employee termination benefits	2,238	1,892
Vacation pay liability accrual	749	624
Unearned loan commissions	4,570	2,999
Derivatives held for trading purposes	(26,648)	6,994
Others	(7,287)	(6,502)
Net deferred tax assets / liabilities	**79,155**	**58,871**

The movement of deferred tax asset is as follows:

	2018	2017
Balance at the beginning of the period	**58,871**	**14,322**
Deferred tax recognised in income statement	(39,412)	46,479
Deferred tax recognised under equity	59,696	(1,930)
Balance at the end of the period	**79,155**	**58,871**

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

27. Share Capital and Share Premium

Share capital structure of the Bank is as follows:

	31 December 2018		31 December 2017	
Name / Commercial Title	**Share Amount (Nominal)**	**Share Ratios**	**Share Amount (Nominal)**	**Share Ratios**
Fiba Holding A.Ş.	675,379	71.57%	674,952	71.52%
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	5,300	0.56%	5,727	0.61%
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 shareholders' 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.

28. Retaind Earnings / (Accumulated Losses) and Other Reserves

At 31 December 2018 retained earnings are TL 282,570 (31 December 2017: TL 336,345).

29. Unrealized losses on financial assets measured at FVOCI, Net of Tax

At 31 December 2017, unrealized losses on financial assets measured at FVOCI are TL 32,281 (31 December 2017: TL 13,625). The tax effect of unrealized gain on available-for-sale investments is TL 6,711 (31 December 2017: TL 2,724), and the net unrealized loss amount is TL 26,572 (31 December 2017: TL 10,899).

30. Commitments and Contingent Liabilities

30.1 Letters of guarantee and credit

As at 31 December 2018, the Bank is contingently liable for letters of guarantee and credit given amounting to TL 871,550 (31 December 2017: TL 2,030,994).

	Carrying Amount			Expected Credit Loss(*)		
	Stage I	**Stage II**	**Stage III**	**Stage I**	**Stage II**	**Stage III**
Letters of Guarantee	648,269	28,523	9,138	5,683	1,751	5,211
Bills of Exchange and Bank Acceptances	129,425	--	--	459	--	--
Letters of Credit	56,195	--	--	58	--	--
Total	**833,889**	**28,523**	**9,138**	**6,200**	**1,751**	**5,211**

(*) ECL allowance for off-balance sheet financial assets are recognized in Liabilities' "Provisions" line.

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

30. Commitments and Contingent Liabilities (continued)

30.2 Other commitments

	31 December 2018	31 December 2017
Payment commitments for cheques	199,635	211,200
Irrevocable credit facilities	615,901	323,365
Commitments for credit card expenditure limits	85,881	123,381
Tax and fund liabilities from export commitments	6,502	5,070
Commitments for credit card and banking promotions	1	--
Other irrevocable commitments	13,659	3,229
Total	**921,579**	**666,245**

30.3 Derivative contracts

Commitments for purchase of foreign currencies under option, forward and swap contracts at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
	Purchase	**Purchase**
Spot buy-sell commitments	1,539,559	817,386
Swap agreements for trading purposes	13,024,284	9,462,967
Forward agreements for trading purposes	2,670,332	2,650,167
Options	3,375,226	6,668,252
Futures	9,509	--
	20,618,910	**19,598,772**

Maturity analysis of derivative instruments is as follows:

31 December 2018	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Interest rate swaps	--	--	--	--	288,045	288,045
Spot, forward and swap exchange contracts	8,632,424	1,619,242	1,124,070	663,301	4,907,093	16,946,130
Options	585,507	430,310	271,426	392,470	1,695,513	3,375,226
Futures	--	9,509	--	--	--	9,509
Total	**9,217,931**	**2,059,061**	**1,395,496**	**1,055,771**	**6,890,651**	**20,618,910**

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**

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

31. 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

	31 December 2018	31 December 2017
Interest income	--	--
Interest expense (*)	17,753	26,653
Non - cash loan commission income	--	--

(*) TL 10,326 is related to IFC and EBRD (31 December 2017: TL 6,219).

(b) Balances with direct related parties

	31 December 2018	31 December 2017
Non cash loans to related parties	20	22
Deposits from related parties	80,750	300,055
Subordinated loans	--	--
Other borrowings (*)	216,991	171,583

(*) TL 216,991 is related to IFC and EBRD (31 December 2017: TL 171,583).

(c) Transactions with other related parties

	31 December 2018	31 December 2017
Interest income	51,949	4,169
Interest expense	54,703	44,785
Net trading income	(45,511)	(23,759)
Non - cash loan commission income	171	114

(d) Balances with other related parties

	31 December 2018	31 December 2017
Cash loans to other related parties	402,272	11,556
Non - cash loans to other related parties	55,468	48,284
Deposits from other related parties	460,871	409,341
Fund borrowings from other related parties	--	--

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

31. Related Parties (continued)

(e) Derivative transactions with other related parties

	31 December 2018	31 December 2017
	Purchase (*)	**Purchase(*)**
Spot, swap, forward and option agreements for trading purposes	422,202	467,409

(*) 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 12,693 in the current period (2017: TL 14,126).

32. Net Interest Income

	2018	2017
Interest income		
Loans and advances to customers	2,289,729	1,697,131
Due from banks	150,163	80,823
Derivative assets	311,109	220,803
Debt instruments	59,003	49,451
Others	32,405	20,023
	2,842,409	**2,068,231**
Interest expense		
Deposits from banks and customers	1,242,973	927,366
Saving deposits insurance	10,135	8,595
Funds borrowed	217,688	120,214
Derivative liabilities	385,226	252,799
Obligations under repurchase agreements	15,575	12,460
Securities issued	270,389	142,885
Others	438	1,537
	2,142,424	**1,465,856**
Net interest income	**699,985**	**602,375**

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

33. Fees and Commission Income and Expenses

Fees and commission income for the years ended 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
Transfer commissions	2,238	2,504
Insurance commissions	51,667	13,337
Account maintenance fees	2,065	3,621
Asset management fees (*)	1,234	3,143
Commissions from non-cash loans	16,850	12,998
Limit allocation,revision and appraisal fees	22,056	21,868
FibaTarife commissions	17,225	--
Periodical service commissions	14,038	--
Credit card commissions	14,625	14,452
Others	22,060	6,655
Fees and commission income	**164,058**	**78,578**

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

Fees and commission expenses for the year ended 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
Payment and transaction fees	2,046	1,738
Credit card fees	12,745	11,583
Commissions for debt issued	8,041	5,339
Commissions to correspondent banks	3,764	1,965
Other	10,407	12,461
Fees and commission expense	**37,003**	**33,086**

34. Net Trading Income

	2018	2017
Gains on derivative transactions	64,586	51,334
Foreign exchange gains /(losses)	27,874	(21,055)
Gains / (losses) on debt instruments, net	73,027	4,542
	165,487	**34,821**

35. Other Operating Income

	2018	2017
Intermediary fees	2,502	4,560
Gain on sale of non-current assets held for sale and tangible assets	5,129	1,903
Gain on sale of loans	5,321	2,218
Others	25,911	23,689
	38,863	**32,370**

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

36. Personnel Expenses

	2018	2017
Wages and salaries	162,057	146,000
Social security premiums	26,745	22,365
Personnel bonuses	10,000	7,200
Employee health insurance expenses	7,053	5,716
Termination and vacation pay expenses	508	1,181
Others	36,863	27,543
	243,226	**210,005**

37. Other Expenses

	2018	2017
Rent expenses	39,841	35,355
Taxes other than on income	24,820	21,771
Telecommunication expenses	17,780	10,207
Information technology expenses	16,533	7,777
Consultancy expenses	16,580	10,564
Cleaning expenses	6,368	4,816
Transportation expenses	5,956	4,808
Advertisement expenses	14,999	10,830
Electricity expenses	3,229	2,522
Office supplies	2,048	1,974
Maintenance expenses	3,091	2,324
Others	29,792	17,250
	181,037	**130,198**

38. Subsequent Events

None.