PASHA YATIRIM BANKASI A.Ş.

FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2018 TOGETHER WITH INDEPENDENT AUDITOR’S REPORT

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Independent auditor's report

To the Shareholders of Pasha Yatırım Bankası A.Ş.

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. 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 financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter is addressed in our audit
Financial impact of transition to IFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures	
As presented in Note 3.6 as of 1 January 2018, the Bank adopted the IFRS 9 ''Financial Instruments'' standard and due to the adoption, the Group started to calculate and recognize expected credit losses of financial assets in accordance with IFRS 9. We considered the transition to IFRS 9 and impairment of financial assets as a key audit matter due to: - Balance sheet and off balance sheet items that are subject to expected credit loss calculation is material for the financial statements - Complex accounting requirements of IFRS 9 - The model that is established by the Group management to calculate the expected credit losses has the compliance risk whether it is established based on the requirements of IFRS 9 and other practices - The new or revised processes that is started to be used with the transition of IFRS 9, have complex and intensive control environment - The new, significant and complex judgments and estimations needed for the calculation of expected credit losses and - The complex disclosure requirements of IFRS.	Our audit procedures included among others include: - Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice. - Identifying and testing relevant controls by involving Process audit specialists - Evaluating the reasonableness of management's key judgements and estimates made in expected credit loss calculations, including selection of methods, models, assumptions and data sources and evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice - Involving Financial risk management specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates and significant estimates and judgements - Assessing the completeness, accuracy and relevance of the data used for the calculation of expected credit loss - Evaluating the appropriateness and testing the mathematical accuracy of Expected credit loss models applied. - Evaluating the reasonableness of and tested the post-model adjustments.

Responsibilities of the Management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

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

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

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

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

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

Emre Çelik, SMMM
Associate Partner

Istanbul, Turkey
12 March 2019

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STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Audited 31 December 2018	Audited 31 December 2017
ASSETS			
Cash and cash equivalents	8	101,185	83,516
Reserve requirements at Central Bank	9	76,482	67,673
Financial assets at fair value through profit and loss	10	2,787	4,943
Financial assets at fair value through other comprehensive income	11	8,314	21,308
Debt securities at amortised cost	11	60,214	-
Derivative financial assets	21	2,247	-
Loans to customers and finance lease receivables	12	840,278	710,670
Investment property	14	218,333	-
Property and equipment	15	2,375	655
Intangible assets	16	1,274	869
Deferred tax assets	22	12,171	1,423
Other assets	13	23,905	3,933
TOTAL ASSETS		**1,349,565**	**894,990**
LIABILITIES			
Amounts due to customers	17	22,342	32,041
Amounts due to banks and money market deposits	18	658	62,751
Funds borrowed	19	460,390	341,387
Employee benefits	23	2,569	2,005
Derivative financial liabilities	21	116	1,072
Debt securities issued	20	318,492	181,741
Current tax liabilities	22	5,425	2,524
Expected credit loss for off-balance sheet exposures	27	6,911	-
Other liabilities	13	27,005	5,324
Total liabilities		**843,908**	**628,845**
EQUITY			
Share capital	24	500,000	255,000
Retained earnings	24	43	10,869
Other reserves	24	5,655	324
Unrealised gains/(losses) on investment securities fair value at other comprehensive income		(41)	(48)
Total equity attributable to shareholders of the Bank		**505,657**	**266,145**
TOTAL LIABILITIES AND EQUITY		**1,349,565**	**894,990**

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Audited 31 December 2018	Audited 31 December 2017
Interest income			
Interest income using amortised Loans to customers		107,484	59,594
Finance lease receivables		3,097	2,188
Investment securities at fair value through other comprehensive income		2,255	1,909
Debt Securities measured at amortised cost		1,551	-
Money market placements and securities purchased under agreements to resell		2,198	297
Bank placements		6,095	925
Amounts due from reserve requirements		1,690	720
Total Interest Income		**124,370**	**65,633**
Interest expense			
Amounts due to customers		(863)	(336)
Funds borrowed		(18,335)	(11,469)
Money market deposits		(4,033)	(3,978)
Amounts due to the debt securities issued		(21,641)	(9,994)
Total Interest Expense		**(44,872)**	**(25,777)**
Net interest income		**79,498**	**39,856**
Provision for impairment losses on financial assets	12, 27	(17,663)	(878)
Fee and commission income		4,324	2,463
Fee and commission expense		(1,156)	(662)
Net fee and commission income	**28**	**3,168**	**1,801**
Net gains/(losses) on financial assets at fair value through profit and loss		482	457
Net gains/(losses) on derecognition of investment securities at fair value through other comprehensive income		-	(4)
Net gains/(losses) from foreign currencies:		(1,541)	3,438
- *translation differences*		(3,844)	6,990
- *operations with foreign currency derivatives*		2,303	(3,552)
Other income		855	102
Total Non-interest income		**2,964**	**5,794**
OPERATING INCOME		**64,799**	**44,772**
Personnel expenses	29	(13,736)	(10,658)
General and administrative expenses	29	(11,856)	(10,601)
Depreciation, amortisation and impairment	15,16	(1,330)	(760)
Impairment of investment property	14	(42,173)	-
Other expenses		-	(3)
Non-interest expenses		**(69,095)**	**(22,022)**
PROFIT BEFORE INCOME TAX		**(4,296)**	**22,750**
Taxation income /(expense)	22	**733**	**(4,475)**
Net profit for the year		**(3,563)**	**18,275**
Other Comprehensive Income			
Items to be reclassified to profit or loss in subsequent periods:			
Net gain/(loss) on investment securities at fair value through other comprehensive income		8	(74)
Tax effect of fair value changes on investment securities at fair value through other comprehensive income		(1)	15
Other comprehensive income/(loss) for the period, net of tax		**7**	**(59)**
Total comprehensive income for the year		**(3,556)**	**18,216**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

Audited	Note	Share capital	Fair value reserve of financial assets at fair value through other comprehensive income	Legal reserves	Retained earnings	Total equity
Balances at 1 January 2017		**255,000**	**11**	**324**	**(7,406)**	**247,929**
Transfer to reserves		**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year						
Profit for the year		-	-	-	18,275	**18,275**
Other comprehensive income for the year, net of tax		-	(59)	-	-	**(59)**
Total comprehensive income for the year		**-**	**(59)**	**-**	**18,275**	**8,391**
Balance at 31 December 2017		**255,000**	**(48)**	**324**	**10,869**	**266,145**
Audited						
Prior year end balance		**255,000**	**(48)**	**324**	**10,869**	**266,145**
Impact of adopting IFRS 9 (*)		-	-	-	(1,932)	**(1,932)**
Balances at 1 January 2018		**255,000**	**(48)**	**324**	**8,937**	**264,213**
Transfer to reserves		**-**	**-**	**5,331**	**(5,331)**	**-**
Capital Increase		**245,000**	**-**	**-**	**-**	**245,000**
Total comprehensive income for the year						
Profit for the year		-	-	-	(3,563)	**(3,563)**
Other comprehensive income for the year, net of tax		-	7	-	-	**7**
Total comprehensive income for the year		**-**	**7**	**-**	**(3,563)**	**(3,556)**
Balance at 31 December 2018		**500,000**	**(41)**	**5,655**	**43**	**505,657**

(*) 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 in the retained earnings under equity. Explanations regarding the transition effects of IFRS 9 has been disclosed in accounting policy Note 2.10.

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

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Audited 31 December 2018	Audited 31 December 2017
Cash flows from operating activities			
Interest received		109,406	58,110
Interest paid		(38,730)	(18,921)
Fee and commission received	28	4,324	3,194
Fee and commission paid	28	(1,156)	(692)
Cash payments to employees		(13,262)	(10,355)
Cash received from other operating activities		855	2,726
Cash paid for other operating activities(*)		(20,554)	(10,793)
Income taxes paid	22	(5,471)	(4,724)
Cash flows from operating activities before changes in operating assets and liabilities		**35,412**	**18,545**
Changes in operating assets and liabilities			
Change in reserve requirements at Central Bank		(8,863)	(48,019)
Financial assets at fair value through profit and loss		181	(4,500)
Loans to customers		(137,422)	(268,669)
Finance lease receivables		24,414	(33,840)
Other assets		23,635	4,078
Due to other banks and money market deposits		(62,729)	47,767
Due to customers		3,013	28,503
Net increase in funds borrowed		40,507	151,787
Other liabilities		(14,796)	(6,581)
Net cash used in operating activities		**(164,975)**	**(129,474)**
Cash flows from investing activities			
Purchases of securities at FVOCI	11	(3,642)	(26,972)
Purchases of securities at amortised cost	11	(62,902)	-
Proceeds from sale and redemption of securities at FVOCI	11	19,596	26,903
Acquisitions of property and equipment	15	(1,964)	(212)
Proceeds from disposal of financial assets at FVTPL		2,356	-
Proceeds from disposal of property and equipment	15	-	1
Acquisitions of intangible assets	16	(1,081)	(414)
Acquisitions of investment property	14	(260,916)	-
Net cash used in investing activities		**(310,909)**	**(694)**
Cash flows from financing activities			
Proceeds from debt securities issued		388,338	350,182
Payment of debt securities		(305,293)	(214,755)
Proceeds from issue of share capital	24	245,000	-
Net cash provided by financing activities		**328,045**	**135,427**
Effect of net foreign exchange differences on cash and cash equivalents		96,984	578
Effect of expected credit losses and rediscount on cash and cash equivalents	8	197	-
Net increase / (decrease) in cash and cash equivalents		17,471	24,382
Cash and cash equivalents at the beginning of the year	8	83,516	59,134
Cash and cash equivalents at the end of the year	8	**101,185**	**83,516**

(*) Cash paid for other operating activities consists of operating expenses and foreign currency gain or loss which has been stripped from non-cash/unrealised transactions.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

1. Principal activities

PASHA Yatırım Bankası A.Ş. ("the Bank", "PASHA Bank"), set up in Istanbul on 25 December 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey. With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795 of the Bank's capital by PASHA Bank OJSC and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the acquisition were approved by the BRSA's decision dated 26 December 2014 and numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as at 25 February 2015. Paid-in capital increase from TL 175,000 to TL 255,000, approval of the share transfer and changing the Bank's title as "PASHA Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "PASHA Yatırım Bankası A.Ş." was registered on 2 March 2015 and announced at the Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773. Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing PASHA Bank OJSC shares from 79,9196% to 99,9196% has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

In the Extraordinary General Meeting held on 18 May 2018, it was decided that the outstanding TL 255,000 paid-in capital will be increased to TL 500,000 with cash injection of TL 245,000 committed by PASHA Holding LLC, and the main agreement of the Bank will be revised accordingly. In accordance with the BRSA decision dated 4 May 2018 and numbered 7803, it has been approved that the indirect shareholder PASHA Holding LLC has the right to participated directly by 49% in the Bank. The share capital increase and the total paid-in capital 500,000 TL has been registered by Istanbul Trade Registry Chamber on 6 June 2018. The amendments to main agreement of the Bank has been published by Turkish Trade Registry Gazette's copy dated 12 June 2018 and numbered 9598.

Partnership structure of the Bank as of 31 December 2018, is stated below:

	Capital	**Share Rate**
PASHA Bank OJSC	254,795	50.96%
PASHA Holding LLC	245,000	49.00%
Other	205	0.04%
Total	**500,000**	**100.00%**

The financial statements were authorised for issue by the Board of Directors on 12 March 2019.

2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss, available-for-sale investments.

The financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

Transactions in currencies other than TL (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. Non-monetary items carried at fair value denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes and contingencies from litigation. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

3. Summary of significant accounting policies

3.1 Interest income and expense

Interest income and expense are recognised in the profit or loss using the effective interest method. Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

If the financial asset is impaired and classified as a non-performing receivable, the Bank applies the effective interest rate on the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. Effective interest rate method is used during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), interest income at subsequent reporting periods are calculated by applying the effective interest rate over gross amount.

Interest income and expense presented in the statement of comprehensive income statement include the interest income on financial assets and liabilities carried at amortized cost on an effective interest rate basis and the interest income on held for trading investments and fair value through other comprehensive income investments.

3.2 Fees and commissions

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Except for certain fees related with certain banking transactions and recognized when the related service is given, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting throughout the service period. Income from asset purchases to a third party or by natural or legal persons contracts are recognized in the period they occur.

3.3 Net trading income

Net trading income comprises gains less loss related to derivative financial and liabilities and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of derivative financial assets and liabilities are recorded as trading income.

3. Summary of significant accounting policies (Continued)

3.4 Taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. 20% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, 20% of the Corporate Tax will be applied as 22% for corporate earnings for the tax years 2018, 2019 and 2020.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

3.5 Financial instruments

The Bank categorises its financial assets as "Financial Assets at Fair Value Through Profit/Loss", "Financial Assets at Fair Value Through Other Comprehensive Income" and "Financial Assets Measured at Amortized Cost". Such financial assets are recognized or derecognized according to the principles defined in section three of "IFRS 9 Financial Instruments" standard, issued for classification and measurement of the financial instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.
IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting.

3. Summary of significant accounting policies (Continued)

Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of the financial assets depend on two fundamental criterias:

- The business model within financial assets are managed and

- The features of contractual cash flow; whether contractual cash flows are based on solely payments of principal and interest or not

Assessment for the business model:

The business model of the Bank represents how the Bank manages its financial assets for generating cash flows. The business model specifies whether cash flows arise from the collection of contractual cash flows or the sale of financial assets, or both. This assessment is based on scenarios the Bank expects to reasonably occur.

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making such assessment, the Bank considers contingent events that would change the amount and timing of cash flows, conditions that limit the Bank's claim to cash flows, prepayments and extension terms and features that modify consideration for the time value of money. Such assessments are also briefly defined as contractual cash flow characteristics test.
The Bank fulfils the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

a. Financial assets at fair value through profit or loss:

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

3. Summary of significant accounting policies (Continued)

b. Financial assets at fair value through other comprehensive income:

“Financial Assets at Fair Value through Other Comprehensive Income” are financial assets which are managed with business model that aims to hold to collect contractual cash flows and aims to hold to sell; and if the contractual terms of the financial assets lead to cash flows representing solely payments of principal and interest at certain dates.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost which reflects the fair value of the financial asset. After initial recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the 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 expense to be reclassified through profit or loss” under shareholders’ equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value.

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

c. Financial assets measured at amortised cost:

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

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

d. Loans:

Loans are financial assets that have fixed or determinable payment terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and subsequently measured at amortized cost using the effective interest rate (internal rate of return) method. Bank’s loans are fully recorded under the "Measured at Amortised Cost" account.

3. Summary of significant accounting policies (Continued)

e. Financial liabilities:

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Financial liabilities, including funds borrowed, securities issued, customer accounts and money market payables are initially measured at fair value, net of transaction costs. Such financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

f. Derivative financial instruments:

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

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

3.6 Expected credit losses

As of 1 January 2018, the Bank started to recognize a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and non-cash loans in accordance with IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

At each reporting date, the Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. The Bank considers the changes in the default risk of financial instrument, when making the assessment.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on increase in credit risk observed since their initial recognition:

Stage 1:

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

Stage 2:

As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition or met criteria below the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses.

- Loans overdue more than 30 days as of the reporting date
- Two notch downgrades in rating note

3. Summary of significant accounting policies (Continued)

Stage 3:

Financial assets considered as impaired at the reporting date are classified as stage 3. The probability of default is taken into account as 100% in the calculation of impairment provision and the Bank accounts lifetime expected credit losses. In determining the impairment, the Bank takes into consideration the following criteria:

- Delay of over 90 days
- Do not carry the necessary conditions for Stage 1 and Stage 2

The Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations regarding time value of money, past events, current conditions and future economic conditions as of the reporting date, without undue cost or effort. The calculation of expected credit losses consists of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Prior to 1 January 2018, the Bank did not have any default history track and no historical data for assumptions of PD and LGD. The Bank uses Moody's global default rates corresponding to the ratings of external / internal rating of lenders when there are default probabilities (PDs) to be used to calculate ECLs. The recovery rates of collateralized loss (LGD) rates are calculated taking into account the specific coefficients. Credit risks carried outside of the statement of financial position is included in the ECL calculation using a specific credit conversion rate. Such ECL calculation is modeled taking into Basel criterias.

With the adoption of IFRS 9, the Bank calculates PDs, LGD and EAD (Exposure at default) and ECL (expected credit losses) for each financial asset, rather than group or portfolio basis. PDs are determined by the bank based on internal rating scores calculated by in-house built up model in the absence of external independent rating grades. The Bank's policy is to use standard PDs published by international rating agencies. The PDs in Stage 1 and Stage 2 are considered using the linear projection method (interpolation) for the remaining period of existence of quarters. The Bank would use the same model for stage 2 loans when exists with using life-time PDs. Further; PDs will be %100 for stage 3 loans when there will be non-performing loans. For non-cash loans, prior to calculating EAD, cash equivalent risk exposures are calculated by a credit conversion factor (CCF). Credit Conversion Factors are determined based on the ratios specified in the "Capital Adequacy Regulation" set by BRSA, local regulator. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets.

The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs that are derived from TTC PDs and scenario forecasts.

Exposure at Default ("EAD")

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the effective interest rate. Future drawdowns on facilities are considered through a credit conversion factor (CCF) that is reflective of historical drawdown and default patterns and the characteristics of the respective portfolios.

3. Summary of significant accounting policies (Continued)

The Bank defines EAD with following terms while summing up to express the total exposure:

a) Accrued interest and principal at reporting date;
b) Possible interest costs during the post-default lifecycle, if interest calculations are not stopped at default date (normally, we accept one-year horizon);
c) Contractual future penalties that might increase the value of the borrower's liability during the post-default year

Calculating the Expected Loss Period

Lifetime ECL is calculated by considering maturity extensions, repayment options and the period during which the Parent Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Bank.

Significant increase in credit risk

The Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk).

Within the scope of quantitative assessment, the quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date. If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Unemployment rates;
- Turkey Banking Sector NPL rates;

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Last 1-year PD from Moody's statistics is taken and outliers removed from the data. After smoothness of the curve 1-year, 2-year and 3-year PD rates are found. Then relationship between macro variables and PD tables were analyzed. It is found that unemployment and NPL data highly explains the PD rates.

Based on three-year expectations on NPL and unemployment, PD table is calibrated. Economic changes show its influence to the rating score and PD estimates across industries for the three years period forward at least. It will be an extensive channel to the rating factors and PD estimates from the forecasted indicators written sourced from the strategy.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

3. Summary of significant accounting policies (Continued)

Adoption effect of IFRS 9 Financial Instruments

Effective 1 January 2018, the Bank adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement and substantially changes the classification, measurement and impairment of financial assets, income statement and balance sheet presentation and disclosure of financial instruments and other arrangements in scope. IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and general hedge accounting.

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL. Equity instruments are not subject to impairment under IFRS 9 and the Bank has no equity instruments as of 31 December 2018 and 2017.

In accordance with the transition rules option provided by the IFRS 9 "Financial Instruments", the Bank has not restated the prior period financial statements and recognized the transition effect of the standard as of January 1, 2018 under equity's "Retained earnings" accounts. Explanation of the effect of the Bank's application of IFRS 9 is stated below:

Reconciliation of statement of financial position balances as at the transition of IFRS 9

	IAS 39		IFRS 9	
	Measurement Method	**Book Value**	**Measurement Method**	**Book Value**
Financial Assets		**31 December 2017**		**1 January 2018**
Cash and cash equivalents (Gross)	Amortised cost	83,516	Amortised cost	83,516
Reserve deposits at Central Bank (Gross)	Amortised cost	67,673	Amortised cost	67,673
Marketable securities (Gross)	Investment securities available for sale	21,308	Financial assets at measured fair value through other comprehensive income	21,308
	Trading securities	4,943	Financial assets at measured fair value through profit or loss	4,943
Loans and leasing receivables (Gross)	Amortised Cost	713,048	Amortised Cost	713,048

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

3. Summary of significant accounting policies (Continued)

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

	Book Value IAS 39	**Remeasurements**		**Book Value After IFRS 9**
	31 December 2017	**ECL**	**Other**	**1 January 2018**
Loans				
Stage 1 & Stage 2	2,378	880	-	3,258
Stage 3	-	-	-	-
Other Financial Assets	**-**	**207**	-	**207**
Cash and cash equivalents	-	8	-	8
Reserve requirements	-	19	-	19
Securities	-	180	-	180
Total on-balance sheet	**2,378**	**1,087**	-	**3,465**
Non-Cash Loans			-	
Stage 1 and Stage 2	-	1,390	-	1,390
Stage 3	-	-	-	-
Total off-balance sheet	**-**	**1,390**	-	**1,390**
Total	**2,378**	**2,477**	-	**4,855**

Effects on equity with IFRS 9 transition

As permitted in IFRS 9, the difference between the book value of 1 January 2018 at the date of application reflected in the opening retained earning's under equity. Explanations regarding the transition effects to IFRS 9 presented in the equity items are given below:

After deducting positive tax effect from the negative difference between the impairment losses of the previous period of the Bank amounting to TL 545, net effect of TL 1,932 provision differences has been recorded under "Retained Earnings" in shareholders' equity.

	Share capital plus legal and valuation reserves	**Retained Earnings**	**Total Equity**
As at 31 December 2017,	**255,276**	**10,869**	**266,145**
Effect of re-classification and re-measurement differences of financial instruments	-	-	-
Effect of re-measurement of provision for credit losses	-	(2,477)	(2,477)
Tax effect of differences above	-	545	545
Net effect of IFRS 9 transition	-	(1,932)	(1,932)
As at 1 January 2018,	**255,276**	**7,005**	**262,281**

3.7 Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

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 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.

3. Summary of significant accounting policies (Continued)

Where all risks and rewards of ownership of the asset have not been transferred to another party and the Bank retains control of the asset, the Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Bank retains substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

Derecognition of financial assets without any change in contractual terms

The Bank derecognizes the asset if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party. Except for equity instruments measured at fair value through other comprehensive income, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognized in profit/loss.

Derecognition of financial liabilities

It shall be removed a financial liability (or a part of a financial liability) from the statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

3.8 Property and equipment

Property and equipment is measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment are carried at cost less accumulated depreciation and provision for value decrease, if any. Depreciation is calculated over the cost of property and equipment using the straight-line method. The depreciation rates are stated below:

Furniture and fixtures	5-10 years
Computer and Other Equipment	3-10 years
Other Equipment	3-10 years
Leasehold improvements	5 years
Vehicles	5 years

The depreciation charge for items remaining in property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.
Where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down immediately to its "recoverable amount" and the provision for the diminution in value is charged to the income statement.

Property and equipment are not subject to valuation such that fair value is presented in the financial statements.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales revenue.

Expenditures for the regular repair and maintenance of property and equipment are recognised as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalised on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset, or the quality of the product or to decrease the costs.

There is no pledge, mortgage or commitment on the Bank's property and equipments.

The Bank expects no change with respect to accounting estimates that have significant impact on the current period or may have significant impact on the following periods.

3. Summary of significant accounting policies (Continued)

3.9 Intangible assets

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortization and the provision for value decreases, if any.

Intangibles are amortised over their estimated useful lives of three to five years using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilise the economic benefit of the assets.

The Bank expects no change with respect to accounting estimates, amortization period, amortization method, or residual value that will have significant impact on the current or the following periods.

Computer software development expenses that add to the economic benefit and extend the useful life of the software are capitalised. These expenses are amortised over the remaining useful life of the related intangible asset using "the straight-line method".

3.10 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less amortisation less any impairment losses.

The Bank's investment properties are valued by external, independent valuation companies on a periodic basis for disclosure and impairment assessment purposes. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. In the absence of available current prices in an active market, the valuations are based on estimated cash flows expected to be received. Investment property held consists of land and building with a useful life of 50 years.

3.11 Leases

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

The Bank as lessee

Assets held under finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

3. Summary of significant accounting policies (Continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets.

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

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

3.12 Provisions

Provisions and contingent liabilities except for the financial instruments within the scope of the IFRS 9 or the provisions recognised in accordance with other standards such as IAS 12 and IAS 19 are accounted in accordance with the “IAS 37 Standard for Provisions, Contingent Liabilities and Contingent Assets”.

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for contingent liabilities arising from past events should be recognised in the same period of occurrence in accordance with the “Matching principle”. When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a “Contingent” liability exists and it is disclosed in the related notes to the financial statements.

3.13 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-sharing and bonus plans

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Bank has a bonus policy which depends on the profitability and each employee’s performance. When certain performance criteria are met during the year, the Bank recognises a bonus provision for that year.

3.14 Fiduciary and trust activities

The Bank provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not recognized in the financial statements, since such items are not as assets of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

3. Summary of significant accounting policies (Continued)

3.15 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank.

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

Interest income and expense

Interest income and expenses are recognized in the statement of profit or loss for all interest bearing instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, finance lease receivables, factoring receivables and due from banks, coupons earned on investment and trading securities and accrued discount and premium on treasury bills and other instruments.

Fees and direct costs relating to a loan origination or acquiring a security, financing or restructuring and to loan commitments are deferred and amortized to interest income over the life of the instrument using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions

Fee and commission income is generally recognized on an accrual basis over the period the service is provided. Commission and fee 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.

The fee and commissions paid to other institutions are recognized as transaction cost and recorded using effective interest rate method.

Financial assets and liabilities at fair value through profit or loss ("FVTPL")

This category has the following two sub-categories:

- Trading and
- Financial assets and liabilities designated at fair value through profit or loss.

Trading

The trading category includes securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin or are included in a portfolio in which a pattern of short-term profit taking exists, and derivatives unless they are designated as and are effective hedging instruments. Trading securities may also include securities sold under sale and repurchase agreements.

Financial assets and liabilities designated at fair value through profit or loss

The Bank designates at initial recognition certain financial assets or liabilities as at fair value through profit or loss when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, for example the Board of Directors and Chief Executive Officer. The fair value designation, once made, is irrevocable.

3. Summary of significant accounting policies (Continued)

Measurement

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognized at fair value and subsequently re-measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in net trading income and results from investment securities.

Interest income generated from financial assets are recognized under net interest income in the statement of profit or loss.

Dividend income is recognized in the statement of profit or loss when the right to receive payment is established. This is the ex-dividend date for equity securities and is separately reported and included in dividend income.

The amount of change during the period, and cumulatively, in the fair values of designated loans and advances to customers that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

Available for sale investments

Available for sale investments are initially recognized at fair value (including transaction costs) and subsequent to initial recognition are measured at fair value. Unquoted equity instruments whose fair value cannot be reliably estimated are carried at cost. Unrealised gains and losses arising from changes in the fair value of available for sale investment securities are reported in other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

Available for sale investment securities may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. When an available for sale investment security is disposed of or impaired, the accumulated unrealised gain or loss included in other comprehensive income is transferred to the statement of profit or loss for the period and reported as gains / losses from investment securities.

Impairment: The Bank assesses at each reporting date whether there is objective evidence that an available for sale investment security or a group of such securities is impaired.

Particularly for equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of profit or loss) is removed from other comprehensive income and recognized in the statement of profit or loss.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

3. Summary of significant accounting policies (Continued)

Interest earned while holding investment securities are reported as interest income.

Dividend income is recognized when the right to receive payment is established (the ex-dividend date) for equity securities and is separately reported and included in dividend income.

Held to maturity investments

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding until maturity and the relevant conditions for fulfilment of such intention, including the funding ability exist, other than those that meet the definition of loans and receivables.

Loans and advances to customers

Loans and advances to customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, and the Bank does not intend to sell immediately or in the near term. Loans and advances to customers include those classified as loans and receivables and those designated as fair value though profit or loss.

Loans originated by the Bank are recognized when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method, unless they are designated as at “fair value through profit or loss”.

Impairment losses on financial assets (Under IAS 39)

The Bank assesses at each reporting date whether there is objective evidence that a loan, or a group of loans is impaired.

A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (“loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the loan (or group of loans) that can be reliably estimated.

An allowance for impairment is established if there is objective evidence that the Bank will be unable to collect all amounts due according to the original contractual terms.

Objective evidence that a loan (or group of loans) is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(a) Significant financial difficulty of the issuer or obligor;

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

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

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

(e) The disappearance of an active market for that financial asset because of financial difficulties; or

3. Summary of significant accounting policies (Continued)

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

i. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or

ii. national or local economic conditions that correlate with defaults on the assets in the group.

The impairment loss is reported through the use of an allowance account on the statement of financial position. Additions to impairment losses are made through impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the statement of profit or loss.

The Bank assesses whether objective evidence of impairment exists individually for loans that are considered individually significant and individually or collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from obtaining and selling the collateral, whether or not the foreclosure is probable.

Impairment losses on financial assets (Under IAS 39) (Continued)

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Loans and advances to customers are grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not currently exist.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the statement of profit or loss.

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

3. Summary of significant accounting policies (Continued)

3.17 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim condensed 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 Bank's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations effective from 1January 2018:

IFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued IFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. 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 is effective for annual periods beginning on or after 1 January 2018. The Bank assessed the effect of IFRS 15 "Revenue from Contracts with Customers" standard and the amendments did not have an impact on the financial position or performance of the Bank.

IFRS 9 Financial Instruments

In January 2017, POA 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. As permitted by IFRS 9, the Bank elected not to restate prior-period information. The adoption of IFRS 9 has resulted in a TL 1,932 reduction in the Bank's IFRS unconsolidated equity, net of tax as of 1 January 2018. Explanations on adoption of IFRS 9 is disclosed in Note 3.6.

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

In December 2017, POA issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

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

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

3. Summary of significant accounting policies (Continued)

IFRS 4 Insurance Contracts (Amendments)

In December 2017, POA issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

- 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

- 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.

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

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

In December 2017, POA issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments did not have a significant impact on the financial position or performance of the Bank.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation issued by POA on 19 December 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

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

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

Annual Improvements to IFRSs - 2014-2016 Cycle

In December 2017, POA issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

3. Summary of significant accounting policies (Continued)

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

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

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

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

IFRS 16 Leases

In April 2018, POA has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Since the Bank has insignificant amount of operating lease agreements (i.e. office building and few company cars), the transition effect of IFRS 16 has been considered and deemed as immaterial for Bank's financial statements.

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

In December 2017, POA 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, POA 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.

3. Summary of significant accounting policies (Continued)

The amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

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.

Annual Improvements – 2015–2017 Cycle

In January 2019, POA issued Annual Improvements to IFRS Standards 2015–2017 Cycle, amending the following standards:

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

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

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

In January 2019, the POA published Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019, early application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

3. Summary of significant accounting policies (Continued)

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The POA issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some repayable 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 repayable 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 amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of IFRS. The Bank will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under IFRS.

IFRS 17 - The new Standard for insurance contracts

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

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The standard is not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

3. Summary of significant accounting policies (Continued)

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ’Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted. Overall, the Bank expects no significant impact on its balance sheet and equity.

4. Critical judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas, for which judgments, estimates and assumptions are required in applying the Bank’s accounting policies, are the following:

- Expected credit losses, as described in Note 3.6,
- Determining fair values, as described in Note 6.

5. Reclassifications

There has been no reclassifications on 31 December 2017.

6. Financial risk management

Introduction and overview

The Bank's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, market risk, liquidity risk, currency risk and operational risk. The Bank's risk policy can be summarised as:

- eliminating currency, interest rate and maturity risk
- minimizing market risk
- well managing the credit risk through a high standardised credit risk management

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate its currency, interest rate and maturity positions that might create liquidity or market risk to Bank. Additionally, in order to minimize the market risk, marketable securities portfolio is limited proportional to the total assets.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the policy of the Bank, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.)
- to manage, and guide all the activities of Internal Systems
- to approve new business lines, products or activities that would have a substantial effect on activities of the Bank

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate). In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities. According to the Bank's "Risk Management Policy", Financial Risks are composed of Market, Credit and Liquidity risks. Risk Management Policy includes details about the framework for defining, measuring, monitoring and managing the risks taken by the business units across the bank. Risk Management Policy covers sound and optimum capital allocation quantification of the actual risks establishment of dynamic risk limit.

The Bank determines risk-based limits, with respect to available economic capital and monitors actual risks against these limits. All risks (market, credit or liquidity), arising from any type financial instrument are subject to aforementioned risk based limits.

6. Financial risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the component of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments and 2 times within three years restructured loans that have been overdue (in principal amount and/or accrued interest and/or any of other payment) less than 30 days from the date specified in the contract at the moment of each particular restructuring. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Bank;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.

6. Financial risk management (continued)

- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy;
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.
- It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

The Bank's independent Credit Underwriting and Intelligence Unit and Risk Management Unit operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are internally rated. Different PD assessment models to be used for different customer segments. Customer segments to be identified in accordance to internal segmentation rules. Each rating (Moody's equivalent) is tied to certain one-year probability of default rate (1-year PD). The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's Risk Management Unit analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Corporate lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements, without taking into account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out below are based on carrying amounts as reported in the statement of financial position.

	31-Dec-18	**31-Dec-17**
Cash and cash equivalents (excluding cash on hand)	101,194	83,470
Reserve requirements at Central Bank	76,536	67,673
Debt securities at FVOCI	8,405	21,308
Debt securities at Amortized Cost	60,694	-
Loans to customers and finance lease receivables	855,234	713,048
Derivative financial assets	2,247	-
Other financial assets	22,161	3,208
Total	**1,126,471**	**888,707**
Financial guarantees and lending commitments	422,653	365,927
Other commitments	17	17
Total	**422,670**	**365,944**
Total credit risk exposure	**1,549,141**	**1,254,651**

The Bank has formed an internal scoring and rating system, based on statistical methods to monitor the credibility of its clients. This system classifies the customers according to their default risk from highest to lowest score or rating. Internal scoring systems are used to improve the efficiency of the loan granting process, to monitor loan portfolio quality effectively and to assist in the determination of the actions required. By using the facility rating outputs derived from this internal scoring and rating system, the Bank has formed its ECL calculation methodology. According to this methodology, the internal facility ratings have been attributed to specific grade classes.

The table below shows the allocation of facility ratings according to the grade class of financial assets taking into account their probability of default behavior. The Bank classifies its financial assets, having facility rating between AAA and BBB (-) as high grade, rating between BB+ and B as standard grade, rating B(-) and C as sub-standard grade. Lower ratings are considered as impaired. Where a loan has passed due but not impaired, regardless of its internal facility rating, it is classified as sub-standard grade.

Classes	**Internal Facility Rating**
High Grade	Between AAA & BBB (-)
Standard Grade	Between BB + & B
Sub-standard Grade	Between B (-) & C
Impaired	D

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

31 December 2018	**Neither past due nor impaired**					
	High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	**Total**
Cash and cash equivalents (excluding cash on hand)	15,685	75,502	10,007	-	-	**101,194**
Reserve requirements at Central Bank	-	76,536	-	-	-	**76,536**
Investment securities at FVOCI	-	6,365	2,040	-	-	**8,405**
Financial assets at FVPL		2,787		-	-	**2,787**
Investment securities at amortised cost	-	60,694	-	-	-	**60,694**
Loans to customers and finance lease receivables, gross (*)	192,430	561,407	96,179	2,555	2,663	**855,234**
Derivative financial assets		118	2,129	-	-	**2,247**
Other financial assets	-	22,161	-	-	-	**22,161**
Total	**208,115**	**805,570**	**110,355**	**2,555**	**2,663**	**1,129,258**

31 December 2017 (**)	**Neither past due nor impaired**					
	High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	**Total**
Cash and cash equivalents (excluding cash on hand)	4,693	78,777	-	-	-	**83,470**
Reserve requirements at Central Bank	-	67,673	-	-	-	**67,673**
Financial Assets at FVPL (Trading	-	4,943	-	-	-	**4,943**
Investment securities available-for-sale	-	14,019	7,289	-	-	**21,308**
Loans to customers and finance lease receivables, gross (*)	124,419	588,629	-	-	-	**713,048**
Other financial assets	-	3,208	-	-	-	**3,208**
Total	**129,112**	**757,249**	**7,289**	**-**	**-**	**893,650**

(*) Loans to customers and finance lease receivables are all corporate lendings.(**) Internal facility ratings presented at 31 December 2017 shows the credit quality classes of financial assets instead of probability of default behaviors according to the ECL calculation methodology as presented at 31 December 2018. This is the main differential between the grade class distribution as of years ending 2018 and 2017.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

Cash Loans	**Rating Classification**	**PD Range**	**LGD Range**
Stage 1			
High grade	192,430	1.73%-3.73%	0%-78.03%
Standard grade	527,056	0.88%-28.74%	0%-75%
Sub-standard grade	47,025	1.32%-1.73%	0%-75%
Stage 2			
High grade	-	-	-
Standard grade (*)	34,351	1.73% - 39.84%	0% - 45%
Sub-standard grade	51,709	3.73% - 39.84%	0% - 60.79%
Stage 3			
Impaired	2,663	100%	100%
Total	**855,234**		

(*) past due but not impaired loans are disclosed in this line.

The staging and internal gradings of the non-cash loans given as of 31 December 2018:

Non-cash loans	**High grade**	**Standard grade**	**Sub-standard grade**	**Impaired**	**Total**
Stage 1	108,665	294,961	2,051	-	**405,677**
Stage 2	10,000	3,623	-	-	**13,623**
Stage 3	-	-	-	3,370	**3,370**
	118,665	**298,584**	**2,051**	**3,370**	**422,670**

The details of past due loans are as follows

	31 December 2018
1-30 days	-
60-90 days	2,555
90 days	2,663
	5,218

There is no past due and impaired receivables as of 31 December 2017.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

The table below shows the geographical concentration of financial assets and liabilities of the Bank:

31 December 18	**Turkey**	**OECD Countries**	**Azerbaijan**	**Georgia**	**Other**	**Total**
Financial assets						
Cash and cash equivalents	92,947	8,016	222	-	-	101,185
Reserve requirements at Central Bank	76,482	-	-	-	-	76,482
Trading securities	2,787	-	-	-	-	2,787
Investment securities at amortised cost	60,214	-	-	-	-	60,214
Investment securities measured at FVOCI	8,314	-	-	-	-	8,314
Loans to customers and finance lease receivables	713,239	79,917	-	-	47,122	840,278
Derivative financial assets	2,247	-	-	-	-	2,247
Other financial assets	22,161	-	-	-	-	22,161
	978,391	**87,933**	**222**	**-**	**47,122**	**1,113,668**
Financial liabilities						
Amounts due to customers	21,091	-	466	782	3	22,342
Amounts due to banks and money market deposits	658	-	-	-	-	658
Funds borrowed	26,812	-	393,330	-	40,248	460,390
Derivative financial liabilities	116	-	-	-	-	116
Debt securities issued	54,104	-	264,388	-	-	318,492
Other financial liabilities	24,084	-	-	-	-	24,084
	126,865	**-**	**658,184**	**782**	**40,251**	**826,082**
Net assets / (liabilities)	**851,526**	**87,933**	**(657,962)**	**(782)**	**6,871**	**287,586**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

31 December 2017	Turkey	OECD Countries	Azerbaijan	Georgia	Other	Total
Financial assets						
Cash and cash equivalents	78,800	4,715	1	-	-	83,516
Reserve requirements at Central Bank	67,673	-	-	-	-	67,673
Derivative financial assets	4,943	-	-	-	-	4,943
Investment securities available-for-sale	14,019	-	-	7,289	-	21,308
Loans to customers, gross	653,332	56,783	555	-	-	710,670
Other financial assets	3,208	-	-	-	-	3,208
	821,975	**61,498**	**556**	**7,289**	**-**	**891,318**
Financial liabilities						
Amounts due to customers	32,041	-	-	-	-	32,041
Amounts due to banks and money market deposits	62,729	-	20	-	2	62,751
Funds borrowed	46,041	-	266,510	7,250	21,586	341,387
Derivative financial liabilities	1,072	-	-	-	-	1,072
Debt securities issued	87,329	-	94,412	-	-	181,741
Other financial liabilities	3,236	-	-	-	-	3,236
	232,448	**-**	**360,942**	**7,250**	**21,588**	**622,228**
Net assets / (liabilities)	**589,527**	**61,498**	**(360,386)**	**39**	**(21,588)**	**269,090**

Liquidity risk

Liquidity risk is the risk occurring as a result of non-availability of sufficient cash on hand or cash inflow to meet cash outflows in a timely manner completely as a result of imbalance in cash flows. Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

The Bank forms its assets and liabilities in balance not to create a negative gap on cumulative basis in maturity segments.

In accordance with the "Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks" entered into force after published on Official Gazette dated November 1, 2006 and numbered 26333 by BRSA, weekly simple average of total liquidity adequacy rates related to primary maturity segment and total liquidity adequacy rate related to secondary maturity segment cannot be less than 100% while weekly simple average of foreign currency liquidity ratio related to primary maturity segment and foreign currency adequacy rate related to secondary maturity segment cannot be less than 80%.

Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

Financial planning and control department is legally responsible for measuring and reporting of liquidity risk. Stress test applied to liquidity position and calculation of liquidity coverage rate is performed by Liquidity Management Department.

Risk Management Department monitors related unit's activities and reports to the Senior Management monthly.
The main funding sources of the Bank are provided by domestic and foreign banks and repo transactions and Money market transactions and diversification of aforementioned sources are made in order to minimize liquidity risk. Financial Institutions Department carries out studies which are required to relate supplying of long-term foreign source.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

TL liquidity of the Bank is managed through funds provided from domestic and foreign banks via repo transactions made in BIST using high quality (premium) securities.

TL and foreign currency cash flow of the Bank in scope of Balance sheet management is monitored separately. Risk Management Unit reports to ALCO weekly and Board of Directors on a monthly basis.

Liquidity limits are determined in order to keep the risk regarding liquidity risk in defined limits and to monitor liquidity position. The aforementioned limits have been determined in accordance with "Regulation on Measurement and Evaluation of Bank's Liquidity Adequacy" in Risk Limits document and approved by Board of Directors.

At least one of the following liquidity stress tests related to issues mentioned below is applied monthly and result of the related test is reported to Board of Directors by Risk Management Unit.

- Negative influence of economic crisis occurring in domestic finance markets on the liquidity of the bank.
- Negative influence of global crisis on the liquidity of the Bank.
- Negative influence of a problem occurred within the Bank (abuse, fraud, reputation risk etc.).

Threshold of weekly and monthly liquidity rate for stress tests which shall be applied for above mentioned scenarios is taken into consideration as 80% for foreign currency assets/liabilities and as 100% for total assets/liabilities.

"Emergency and unexpected situation plan for Liquidity" is approved by the Board of Directors and established in order to manage possible liquidity crisis and required actions for losses which can occur in extraordinary conditions are determined with preventing mechanisms and liquidity squeeze scenarios. The scope of the aforementioned plan is to pre-determine applicable scenarios, measurement of liquidity risk and the actions which shall be taken towards those risks.

Liquidity ratios realised in the current period:

The below tables are prepared in accordance with BRSA regulations representing the ratio of liquid assets to liabilities within certain time intervals for the last quarter of reporting periods.

	First Maturity Tranche (Weekly)		**Second Maturity Tranche (Monthly)**	
	FC	**FC +TL**	**FC**	**FC +TL**
31 December 2018				
Average (%)	1,235	677	745	460
Maximum (%)	3,493	2,544	1,284	865
Minimum (%)	176	204	166	194

	First Maturity Tranche (Weekly)		**Second Maturity Tranche (Monthly)**	
	FC	**FC +TL**	**FC**	**FC +TL**
31 December 2017				
Average (%)	595	221	180	157
Maximum (%)	1,137	291	382	220
Minimum (%)	190	156	81	107

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

The table below shows the expected maturities of credit related commitments and contingencies at the balance sheet date.

	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Maturity Undefined	Total
31 December 2018	-	267	98,674	182,754	21,209	119,749	422,653
31 December 2017	4,651	5,493	194,317	51,508	-	109,958	365,927

The table below shows nominal amounts of the remaining maturities of derivative financial instruments at the balance sheet date.

31 December 2018	**Up to 1 month**	**1-3 Month**	**3-12 Month**	**1-5 Year**	**5 Year and Over**	**Total**
Currency forward agreements – purchase	22,220	27,396	-	-	-	49,616
Currency forward agreements – sell	(21,296)	(27,734)	-	-	-	(49,030)
Currency swap agreements – purchase	-	-	-	-	-	-
Currency swap agreements – sell	-	-	-	-	-	-
Net	**924**	**(338)**	**-**	**-**	**-**	**586**
31 December 2017						
Currency forward agreements – purchase	2,441	8,307	11,646	-	-	22,394
Currency forward agreements – sell	(2,437)	(8,354)	(11,289)	-	-	(22,080)
Currency swap agreements – purchase	32,061	-	-	-	-	32,061
Currency swap agreements – sell	(32,795)	-	-	-	-	(32,795)
Net	**(730)**	**(47)**	**357**	**-**	**-**	**(420)**

The table below shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis.

31 December 2018	**Carrying amount**	**Contractual cash flows**	**Up to 1 month**	**1-3 Month**	**3-12 Month**	**1-5 Year**	**5 Year and Over**
Amounts due to customers	22,342	23,373	7,293	14,883	539	-	-
Amounts due to banks and money market deposits	658	658	658	-	-	-	-
Funds borrowed	460,390	463,454	106,438	184,821	172,195	-	-
Debt securities issued	318,492	355,313	30,225	27,290	7,723	290,075	-
Total	**801,882**	**842,140**	**144,614**	**226,994**	**180,457**	**290,075**	**-**

31 December 2017	**Carrying amount**	**Contractual cash flows**	**Up to 1 month**	**1-3 Month**	**3-12 Month**	**1-5 Year**	**5 Year and Over**
Amounts due to customers	32,041	32,049	32,049	-	-	-	-
Amounts due to banks and money market deposits	62,751	62,821	62,821	-	-	-	-
Funds borrowed	341,387	347,325	70,384	28,081	170,466	78,394	-
Derivative financial liabilities	1,072	1,072	692	187	193	-	-
Debt securities issued	181,741	205,893	29,484	59,244	-	117,165	-
Total	**618,992**	**649,160**	**195,430**	**87,512**	**170,659**	**195,559**	**-**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

Interest rate sensitivity risk

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured legally in accordance with the "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts", and this legal limit is monitored and reported monthly, based on this measurement.

Interest rate sensitivity of financial assets and liabilities based on repricing dates is as follows:

31 December 2018	**Non-interest bearing**	**Up to 1 month**	**1-3 Month**	**3-12 Month**	**1-5 Year**	**5 Year and Over**	**Total**
Financial Assets							
Cash and cash equivalents	17,308	83,877	-	-	-	-	101,185
Reserve requirements at Central Bank	(54)	76,536	-	-	-	-	76,482
Financial assets at fair value through profit and loss	2,787	-	-	-	-	-	2,787
Derivative financial assets	-	1,309	938	-	-	-	2,247
Financial assets at fair value through OCI	(91)	76	81	4,480	2,778	990	8,314
Debt securities at amortised cost	(480)	-	148	13,858	46,688	-	60,214
Loans to customers and finance lease receivables	(12,293)	225,381	106,715	154,509	234,015	131,951	840,278
Other financial assets	22,161	-	-	-	-	-	22,161
Total financial assets	**29,338**	**387,179**	**107,882**	**172,847**	**283,481**	**132,941**	**1,113,668**
Financial Liabilities							
Amounts due to customers	7,293	14,524	525	-	-	-	22,342
Amounts due to banks and money market deposits	658						658
Funds borrowed	106,173	183,879	170,338	-	-	-	460,390
Derivative financial liabilities	-	-	116	-	-	-	116
Debt securities issued	30,049	26,609	7,507	254,327	-	-	318,492
Other financial liabilities	22,161	-	-	-	-	-	22,161
Total financial liabilities	**166,334**	**225,012**	**178,486**	**254,327**	**-**	**-**	**824,159**
Net interest sensitivity gap	**(136,996)**	**162,167**	**(70,604)**	**(81,480)**	**283,481**	**132,941**	**289,509**

31 December 2017	**Non-interest bearing**	**Up to 1 month**	**1-3 Month**	**3-12 Month**	**1-5 Year**	**5 Year and Over**	**Total**
Financial Assets							
Cash and cash equivalents	25,038	58,478	-	-	-	-	83,516
Reserve requirements at Central Bank	-	67,673	-	-	-	-	67,673
Trading securities	4,943	-	-	-	-	-	4,943
Derivative financial assets	-	-	-	-	-	-	-
Investment securities available-for-sale	-	2,524	9,303	9,481	-	-	21,308
Loans to customers and finance lease receivables	(2,378)	254,990	169,508	150,622	128,318	9,610	710,670
Other financial assets	3,208	-	-	-	-	-	3,208
Total financial assets	**30,811**	**383,665**	**178,811**	**160,103**	**128,318**	**9,610**	**891,318**
Financial Liabilities							
Amounts due to customers	20,736	11,305	-	-	-	-	32,041
Amounts due to banks and money market deposits	22	62,729	-	-	-	-	62,751
Funds borrowed	-	70,164	27,931	167,656	75,636	-	341,387
Derivative financial liabilities	-	692	187	193	-	-	1,072
Debt securities issued	-	29,252	58,077	-	94,412	-	181,741
Other financial liabilities	3,236	-	-	-	-	-	3,236
Total financial liabilities	**23,994**	**174,142**	**86,195**	**167,849**	**170,048**	**-**	**622,228**
Net interest sensitivity gap	**6,817**	**209,523**	**92,616**	**(7,746)**	**(41,730)**	**9,610**	**269,090**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

The following table indicates the average interest rates by major currencies for the major accounts during the years 2018 and 2017:

	EUR (%)	USD (%)	TL (%)
31 December 2018			
Assets			
Reserve requirements at Central Bank	-	0.97	-
Cash and cash equivalents	-	4.00	26.42
Loans to customers and finance lease receivables	5.17	7.24	21.33
Debt securities at amortised cost	-	8.19	-
Financial assets at FVOCI	-	-	22.56
Liabilities			
Amounts due to banks and money markets deposits	-	2.02	10.99
Funds borrowed	0.27	2.63	25.84
Debt securities issued	-	3.90	30.08

	EUR (%)	USD (%)	TL (%)
31 December 2017			
Reserve requirements at Central Bank	-	1.29	4.00
Cash and cash equivalents	0.04	1.21	13.97
Loans to customers and finance lease receivables	4.54	6.09	15.33
Available-for sale financial assets	-	-	12.14
Amounts due to money markets	-	-	13.72
Funds borrowed	1.43	3.17	12.64
Debt securities issued	-	4.85	13.93

The table below shows the economic value differences resulted from interest rate volatilities calculated according to regulation on measurement and evaluation of interest rate risk resulted from financial assets and liabilities:

31 December 2018 **Type of Currency**	**Shocks Applied** **(+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity(*)**
1. TL	(+) 500 bps	(3,086)	(0.59%)
2. TL	(-) 400 bps	2,631	0.51%
3. USD	(+) 200 bps	(5,584)	(1.07%)
4. USD	(-) 200 bps	6,712	1.29%
5. EURO	(+) 200 bps	(1,864)	(0.36%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**9,343**	**1.79%**
Total (For positive shocks)		**(10,534)**	**(2.02%)**
31 December 2017 **Type of Currency**	**Shocks Applied** **(+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity (*)**
1. TL	(+) 500 bps	(7,942)	(2.97%)
2. TL	(-) 400 bps	7,145	2.68%
3. USD	(+) 200 bps	2,667	1.00%
4. USD	(-) 200 bps	(1,787)	(0.67%)
5. EURO	(+) 200 bps	(1,654)	(0.62%)
6. EURO	(-) 200 bps	2,602	0.97%
Total (For negative shocks)		**7,959**	**2.98**
Total (For positive shocks)		**(6,930)**	**(2.59)**

(*) The equity represents the statutory equity of the Bank subject to capital adequacy calculations.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

Currency risk

The Bank's foreign currency position is managed within the limits set by legislation and the Bank. The basic principle in foreign currency risk management is not to be exposed to currency risk. Accordingly, the exchange-trading risk positions are not allocated to the limit, banking accounts as of the currency by creating a matched asset-liability structure is aimed to provide natural protection. The Bank uses derivative financial instruments such as forward foreign exchange contracts and currency swaps for hedging purposes in foreign currency denominated transactions. Bank's methodology of digitising the foreign currency position includes the use of standard method when calculating the capital adequacy ratio and application of internal stress tests/ sensitivity analysis.

The Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five business days prior to that date:

	USD	EURO
Bid Rate	5.2810	6.0422
1. Bid rate	5.2609	6.0280
2. Bid rate	5.2889	6.0245
3. Bid rate	5.2832	6.0185
4. Bid rate	5.3034	6.0419
5. Bid rate	5.2926	6.0291

As at 31 December 2018, the Bank's USD bid rate is 5.2810 and EUR bid rate is 6.0422.

The simple arithmetic average of the Bank's foreign exchange bid rates for the last thirty days preceding the balance sheet date:

	USD	EURO
31 December 2018	5.3010	6.0359
31 December 2017	3.8417	4.5496

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

The following table shows the foreign currency net general position of the bank on the basis of foreign currencies.

31 December 2018	TL	EUR	USD	AZN	Total
Assets					
Cash and cash equivalents	68,646	1,688	30,842	9	101,185
Reserve requirements at Central Bank	(54)	15,365	61,171	-	76,482
Financial assets at fair value through profit and loss	1,250	-	1,537	-	2,787
Financial assets at fair value through other comprehensive income	8,314	-	-	-	8,314
Securities at amortised cost	(480)	-	60,694	-	60,214
Derivative financial assets	-	-	2,247	-	2,247
Loans to customers and finance lease receivables	351,913	138,110	350,255	-	840,278
Other assets	22,088	-	73	-	22,161
Total Financial Assets	**451,677**	**155,163**	**506,819**	**9**	**1,113,668**
Liabilities					
Amounts due to customers	22,342				22,342
Amounts due to banks and money market deposits	658	-	-	-	658
Funds borrowed	34,277	154,071	272,042		460,390
Derivative financial liabilities	116	-	-	-	116
Debt securities issued	54,104		264,388	-	318,492
Other liabilities	12,199	948	9,014	-	22,161
Total Financial Liabilities	**123,696**	**155,019**	**545,444**	**-**	**824,159**
Net balance sheet gap	**327,981**	**144**	**(38,625)**	**9**	**289,509**

31 December 2017	TL	EUR	USD	AZN	Other	Total
Assets						
Cash and cash equivalents	9,816	12,151	61,548	1	-	83,516
Reserve requirements at Central Bank	-	3,138	64,535	-	-	67,673
Trading securities	4,943	-	-	-	-	4,943
Derivative financial assets	-	-	-	-	-	-
Investment securities available-for-sale	14,019	-	-	-	7,289	21,308
Loans to customers and finance lease receivables	447,494	101,985	161,191	-	-	710,670
Other financial assets	3,208	-	-	-	-	3,208
Total Financial Assets	**479,480**	**117,274**	**287,274**	**1**	**7,289**	**891,318**
Liabilities						
Amounts due to customers	8,603	8,489	14,949	-	-	32,041
Amounts due to banks and money market deposits	62,731	-	20	-	-	62,751
Funds borrowed	39,590	85,007	209,540	-	7,250	341,387
Derivative financial liabilities	1,072	-	-	-	-	1,072
Debt securities issued	87,329	-	94,412	-	-	181,741
Other financial liabilities	3,236	-	-	-	-	3,236
Total Financial Liabilities	**202,561**	**93,496**	**318,921**	**-**	**7,250**	**622,228**
Net balance sheet gap	**276,919**	**23,778**	**(31,647)**	**1**	**39**	**269,090**

The possible increases or decreases in the shareholders' equity and the profit/loss as per an assumption of depreciation and appreciation by 10% of TL against currencies mentioned below as of 31 December 2018 and 2017 are presented in the below table. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

	31 December 2018		**31 December 2017**	
	Income statement (+)/(-)	Shareholders' equity (+)/(-) (*)	Income statement (+)/(-)	Shareholders' equity (+)/(-) (*)
EUR	14	14	2,378	2,378
USD	(3,863)	(3,863)	(3,165)	(3,165)
AZN	-	-	-	-
Total	**(3,848)**	**(3,848)**	**(787)**	**(787)**

(*) The effect on shareholders' equity also includes profit/loss effect.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

Fair Value Measurements

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the statement of financial position at fair value.

	Carrying value 2018	Fair value 2018	Unrecognised gain/(loss) 2018	Carrying value 2017	Fair value 2017	Unrecognised gain/(loss) 2017
Financial assets						
Cash and cash equivalents	101,211	101,211	-	83,516	83,516	-
Reserve requirements at Central Bank	76,536	76,536	-	67,673	67,673	-
Loans to customers and finance lease receivables	855,234	792,853	(62,381)	713,048	708,376	(4,672)
Debt securities at amortised cost	60,694	60,974	280	-	-	
Financial liabilities						
Amounts due to customers	22,342	22,342	-	32,041	32,041	-
Amounts due to banks and money market deposits	658	658	-	62,751	62,751	-
Funds borrowed	460,390	460,531	(141)	341,387	341,279	108
Debt securities issued	318,492	320,970	(2,478)	181,741	181,598	143
Total unrecognised fair value difference			**(64,720)**			**(4,421)**

The following methods and assumptions were used to estimate the fair values of above financial instruments:

The fair value of loans and receivables are determined by calculating the discounted cash flows using the current market interest rates for the fixed loans with fixed interest rates. For the loans with floating interest rates, it is assumed that the carrying value reflects the fair value.

The fair values of debt securities issued are determined based on market prices or when this price is not available, using a discounted cash flow analysis based on current market rates of similar maturity debt securities.

The fair value of funds borrowed are determined by using discounted cash flows based on the current Bank's borrowing interest rates for similar types of borrowing arrangements.

The fair value of remaining financial assets and liabilities such as cash and cash equivalents, amounts due from credit institutions, amounts due to banks and money market deposits and amounts due to customers are estimated to be same with carrying amount due to their short-term maturity profile and non-interest earning/bearing characteristics.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

The table below analyses the stated fair values of financial instruments according to their fair value hierarchy. The hierarchies have been defined as follows:

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

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and cash equivalents	101,211	-	-	101,211
Reserve requirements at Central Bank	76,536	-	-	76,536
Loans to customers and finance lease receivables	-	-	792,853	792,853
Debt Securities at amortised cost	60,974	-	-	60,974
Financial assets at fair value through profit and loss	2,787	-	-	2,787
Investment securities measured at fair value through other comprehensive income	8,405	-	-	8,405
Derivative financial assets	-	2,247	-	2,247
Total	**249,913**	**2,247**	**792,853**	**1,045,013**
Financial Liabilities				
Amounts due to customers	-	-	22,342	22,342
Amounts due to banks and money market deposits	-	-	658	658
Funds borrowed	-	-	460,531	460,531
Debt securities issued	-	-	320,970	320,970
Derivative financial liabilities	-	116	-	116
Total	**-**	**116**	**804,501**	**804,617**

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and cash equivalents	83,516	-	-	83,516
Reserve requirements at Central Bank	67,673	-	-	67,673
Loans to customers and finance lease receivables	-	-	713,048	713,048
Cash and cash equivalents	83,516	-	-	83,516
Trading securities	4,943	-	-	4,943
Investment securities available-for-sale	14,019	-	7,289	21,308
Derivative financial assets	-	-	-	-
Total	**253,667**	**-**	**720,337**	**974,004**
Financial Liabilities				
Amounts due to customers	-	-	32,041	32,041
Amounts due to banks and money market deposits	-	-	62,751	62,751
Funds borrowed	-	-	341,279	341,279
Debt securities issued	-	-	181,598	181,598
Derivative financial liabilities	-	1,072	-	1,072
Total	**-**	**1,072**	**617,669**	**618,741**

6. Financial risk management (continued)

Level 3 financial assets include corporate bonds with floating rates, which are valued using discounted cash flow techniques based on current rates available for debt instruments with similar terms and credit risk characteristics. The movement in the level 3 financial assets is as follows:

	2018	**2017**
Balance at the beginning of the period	7,289	6,674
Additions	-	-
Disposals	(7,289)	-
Gains/losses from changes in fair value	-	18
Foreign exchange differences	-	597
Balance at the end of the period	-	**7,289**

Market risk

Market risk is followed under two headings: market risk arising from trading activities and market risk arising from banking transactions. The basic principle of market risk management is creating a compliant asset / liability structure and providing protection by averting differences with derivative instruments when necessary.

Management of market risk

By the Board of Directors, market risk limits introduced by the minimization of the risks involved were targeted. Defined risk limits are reviewed by the Board of the Directors in 3 month period and updated if necessary. "Standard method" is used in the measurement of market risk in the extent of capital adequacy ratio. Value of the securities portfolio at risk is monitored and is reported to senior management on a monthly basis.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

Exposure to market risk - trading portfolios

The market risk arising from trading portfolio is monitored, measured and reported using Standard Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standard Approach are reported to BRSA.

The below table represents the details of the market risk calculation in accordance with the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", section three "Calculation of Market Risk with Standard Method" published by BRSA.

2018	**Interest rate risk**	**Currency risk**	**Total Market Risk**
As at 31 Dec 2018	58	399	457
Average	137	604	742
Maximum	413	4,143	4,143
Minimum	-	17	17

2017	**Interest rate risk**	**Currency risk**	**Total Market Risk**
As at 31 Dec 2011	125	138	263
Average	116	731	847
Maximum	179	1,435	1,587
Minimum	15	138	263

Counterparty risk

The Bank faces counterparty risk from the over-the-counter transactions and repurchase agreements in which it involves. Counterparty risk strategy has been defined according to counterparty's nature and product category. Counterparties may be sovereigns, banks, corporate and commercial customers. Products are grouped as derivative contracts such as currency forwards-futures-swaps, interest swaps and repurchase transactions.

Previous to the transactions regarding counterparty risk, the counterparty risk is analysed and subsequently the counterparty's credit risk is monitored periodically. In case the frequency of monitoring may be increased.

Except for the banks, the approvals related to loan granting are applied for the corporate counterparties. In case of worsened market conditions and credibility concerns of parties, limits may be re-evalued and revised. If needed approved limits may be blocked.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Financial risk management (continued)

Capital adequacy

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published on 6 September 2014 and Official Gazette numbered 29111 and "Communiqué on Equities of Banks" published on 5 September 2013 in the Official Gazette numbered 28756. The Bank's capital adequacy ratio is % 31.36 (31 December 2017: % 53.85) in accordance with the related Communiqué as of 31 December 2018. The Bank has complied with the capital requirements throughout the year and previous year.

	31 December 2018	**31 December 2017**
Capital requirement for Credit Risk (CRCR)	104,784	64,529
Capital requirement for Market Risk (CRMR)	457	263
Capital requirement for Operational Risk (CROR)	5,452	3,349
Total capital requirement	**110,693**	**68,141**
Total risk weighted assets (total capital requirement*12.5)	**1,383,663**	**851,763**
Tier 1 capital	506,368	259,687
Tier 2 capital	17,296	7,393
Deductions from capital (-)	**-**	**-**
Total capital	**523,664**	**267,080**
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	37.85	31.36
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	36.60	30.49
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	36.60	30.51

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

7. Segment Reporting

IFRS 8, Operating Segments, requires entities which issues securities, to disclose information about their operating segments, products and services. Operating segments are defined as activities which Bank earns revenue and incur expenses. The Bank's segmental reporting is based on the following operating segments: Corporate Banking and Treasury and Asset Liability Management.

Information on operational segments on 31 December 2018 and 2017 are as follows:

31 December 2018	**Corporate banking**	**Treasury and asset liability management**	**Total**
Total asset	837,615	511,950	1,349,565
Total liabilities	23,000	820,908	843,908
Net interest income	110,575	(31,077)	79,498
Net fee and commission income	3,168	-	3,168
Other operating segments gain	-	855	855
Other operating expenses and losses (-)	(17,713)	(70,154)	(87,817)
Profit before tax	**96,080**	**(100,376)**	**(4,296)**
Tax income	-	733	733
Net profit	**96,080**	**(99,593)**	**(3,563)**

31 December 2017	**Corporate banking**	**Treasury and asset liability management**	**Total**
Total asset	710,670	184,320	894,990
Total liabilities	32,091	596,754	628,845
Net interest income	61,782	(21,926)	39,856
Net fee and commission income	1,801	-	1,801
Other operating segments gain	-	3,993	3,993
Other operating expenses and losses (-)	(878)	(22,022)	(22,900)
Profit before tax	**62,705**	**(39,955)**	**22,750**
Tax income	-	(4,475)	(4,475)
Net profit	**62,705**	**(44,430)**	**18,275**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

8. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	31 December 2017
Cash on hand	17	46
Current accounts with the Central Bank	8,558	9,854
Demand Deposits	8,759	15,138
Time deposits up to 90 days	33,844	58,478
Money market receivables with other credit institutions	50,033	-
	101,211	83,516
Expected credit loss	(26)	-
Stage 1	*(26)*	-
Stage 2 & 3	-	-
Total cash and cash equivalents	**101,185**	**83,516**

As at 31 December 2018, all the cash and cash equivalents are classified under Stage 1 in accordance with IFRS 9.

As at 31 December 2018, the interest rates for time deposits vary between 2.2% and 5% for USD balances (31 December 2017: 1.25% - 1.65% for USD balances).

9. Reserve requirements at Central Bank

Amounts due from Central Bank of Turkey held as reserve requirements:

	31 December 2018	31 December 2017
Reserve requirements with the CBT	76,536	67,673
Expected credit loss	(54)	-
Stage 1	*(54)*	-
Stage 2 & 3	-	-
Total	**76,482**	**67,673**

As at 13 December 2018, all the reserve requirements are classified under Stage 1 in accordance with IFRS 9.

According to CBRT's "Required Reserves Announcement" numbered 2005/1, for Turkish currency and foreign currency denominated liabilities, reserve requirement amounts held in CBRT have been included in the above table. The reserve rates for TL liabilities vary between 1.5% and 8% for TL deposits and other liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 10.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 20% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 24% for all foreign currency liabilities).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

10. Financial Assets at Fair Value Through Profit or Loss

	31 December 2018	31 December 2017
Quoted		
Mutual funds participation certificate	2,787	4,943
Total	**2,787**	**4,943**

11. Investment Securities

Debt securities at FVOCI	**31 December 2018**
Quoted	8,405
Turkish Government Bonds	*3,839*
Financial Institution Bonds	*2,526*
Corporate Bonds	*2,040*
Gross carrying amount	**8,405**
Expected credit loss	*(91)*
Stage 1	*(91)*
Stage 2 & 3	-
Debt securities at FVOCI, Net	**8,314**
	-
Securities pledged under repurchase agreements	**4,449**

Available-for-sale securities

	31 December 2017
Quoted	**14,019**
Turkish Government Bonds	*5,080*
Financial Institution Bonds	*8,939*
Unquoted	7,289
Corporate Bonds	*7,289*
	21,308
Securities pledged under repurchase agreements	**711**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

11. Investment Securities (Continued)

Financial assets at fair value through other comprehensive income (Continued)

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2017	**21,308**	**-**	-	**21,308**
New assets originated or purchased	3,642	-	-	**3,642**
Assets repaid	(19,596)	-	-	**(19,596)**
Unwinding of discount (recognised in interest revenue)	1,663	-	-	**1,663**
Fair value increase	1,388	-	-	**1,388**
At 31 December 2018	**8,405**	**-**	**-**	**8,405**

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 31 December 2017	**-**	**-**	**-**	**-**
IFRS 9 Transition effect	*180*	-	-	***180***
ECLs as at 1 January 2018	180	-	-	**180**
New assets originated or purchased	22	-	-	**22**
Assets repaid	(148)	-	-	**(148)**
Changes to models and inputs used for ECL calculations	37	-	-	**37**
At 31 December 2018	**91**	**-**	**-**	**91**

	31 December 2018		**31 December 2017**	
	%	**Maturity**	**%**	**Maturity**
Turkish Government Bonds	13.00%	Nov 2019	11.37%	Jul 2018
Financial Institution Bonds	19.94%	Oct 2027	16.68%-17.21%	Jul 2018 – Oct 2027
Corporate Bonds	23.4%	Feb 2020	10.86%-18.28%	Feb 2020 – Dec 2021

Debt securities at Amortised Cost

Investment securities measured at amortised cost including those pledged under repurchase agreements comprise:

	31 December 2018	**31 December 2017**
Debt securities at amortised cost		
Turkish Government Bonds	37,533	-
Financial Institution Bonds	23,161	-
Corporate bonds	-	-
	60,694	**-**
Less – allowance for impairment	(480)	-
Debt securities at amortised cost	**60,214**	**-**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

11. Investment Securities (Continued)

Debt securities at Amortised Cost (Continued)

Debt securities at amortised cost	*Stage1*	*Stage2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**-**			**-**
New assets originated or purchased	62,902	-	-	**62,902**
Unwinding of discount (recognised in interest income)	789	-	-	**789**
Foreign exchange adjustments	(2,997)	-	-	**(2,997)**
At 31 December 2018	**60,694**	**-**	**-**	**60,694**

Debt securities at amortised cost	*Stage1*	*Stage2*	*Stage 3*	*Total*
ECLs as at 31 December 2018	**-**	**-**	**-**	**-**
IFRS 9 Transition effect	-	-	-	**-**
ECLs as at 1 January 2018	-	-	-	**-**
New assets originated or purchased	480	-	-	**480**
At 31 December 2018	**480**	**-**	**-**	**480**

12. Loans to customers and finance lease receivables

The loans are almost fully granted to corporate customers. There are no consumer loans or credit card balances. Loans to customers and finance lease receivables comprise:

	31 December 2018	**31 December 2017**
Neither past due nor impaired		
Loans to customers	837,431	679,099
- Counterparty financial institutions	229,166	287,975
- Counterparty corporate customers	608,265	391,124
Finance lease receivables	12,585	33,949
- Counterparty financial institutions	7,151	8,904
- Counterparty corporate customers	5,434	25,045
Past due not impaired	2,555	-
Impaired individually	2,663	-
Loans to customers and finance lease receivables (gross)	**855,234**	**713,048**
- Individual impairment (-)	(2,663)	-
- Expected credit loss / Collective impairment (-)	(12,293)	(2,378)
Loans and advances to customers, net	**840,278**	**710,670**

Movement in allowance for impairment on loans to customers and finance lease receivables is as follows:

	2017
Balance at January 1,	(1,500)
Current year (additions)/reversals	(878)
Balance at December 31,	(2,378)

As at 31 December 2017, TL 577 is allowance for loans and finance lease receivables given to financial institutions counterparty.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

12. Loans to customers and finance lease receivables (continued)

All loans are carried at amortised cost. The gross carrying amounts and ECL movement details are as follows:

Corporate lending (including lease receivables)	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**713,048**	**-**	**-**	**713,048**
New assets originated or purchased	579,857	-	-	**579,857**
Assets repaid	(508,402)	-	-	**(508,402)**
Assets sold	-	-	-	**-**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	(82,791)	82,791	-	**-**
Transfers to Stage 3	(2,663)	-	2,663	**-**
Unwinding of discount	33,542	4,638	-	**38,180**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	(364)	-	**(364)**
Recoveries	-	-	-	**-**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	33,920	(1,005)	-	**32,915**
At 31 December 2018	**766,511**	**86,060**	**2,663**	**855,234**

Corporate lending (including lease receivables)	*Stage1*	*Stage2*	*Stage3*	*Total*
ECL as at 31 December 2018	***2,378***	***-***	***-***	***2,378***
IFRS 9 Effect	*880*			*880*
ECL as at 1 January 2018	**3,258**	**-**	**-**	**3,258**
New assets originated or purchased	10,841	-	-	10,841
Assets repaid	(3,114)	-	-	(3,114)
Assets sold	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(4,124)	4,124	-	-
Transfers to Stage 3	(2,663)	-	2,663	-
Impact on period end ECL of exposures transferred between stages during the period	-	1,832	-	1,832
Unwinding of discount (recognised in interest revenue)	255	348	-	603
Foreign exchange adjustments	1,377	159		1,536
At 31 December 2018	**5,830**	**6,463**	**2,663**	**14,956**

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be (purchased or originated credit impaired) POCI. No POCI assets have been purchased or originated.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

12. Loans to customers and finance lease receivables (continued)

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification loss suffered by the Bank.

	2018
Loans modified during the period	
Amortised cost before modification	17,599
Net modification loss/gain	(364)

	Total Exposure	*Fair value of collateral held under the base scenario*						*Net exposure*	*Associated ECL*
		Cash/ deposits	*Securities*	*Property*	*Other**	*Surplus* Collateral	*Total collateral*		
31.12.2018									
Corporate lending	842,649	11,070	155,243	71,893	332,507	-	570,713	266,718	14,819
Finance Lease receivables	12,585	-	-	10,400	-	(3,249)	7,151	5,434	137

(*) Other items consists of letter guarantees and pledged assets.

During the year and previous year, the Bank did not take possession of different assets in exchange of indebtness of respective borrowers.

Loans are made principally within Turkey in the following industry sectors:

	31 December 2018	**31 December 2017**
Financial institutions	310,261	296,879
Other corporate lending		
Trade and services	76,805	67,680
Manufacturing	77,931	27,238
Construction	87,711	78,999
Real estate and & Rental services	21,815	46,077
Mining	37,972	37,705
Energy	92,021	39,697
Other	150,720	118,773
Total loans to customers and finance lease receivables, gross	**855,234**	**713,048**
Impairment allowance	(14,956)	(2,378)
Total loans to customers and finance lease receivables, net	**840,278**	**710,670**

The table below shows the detail of solid collaterals obtained against loans to customers and finance lease receivables. The collateral amounts in the table present the minimum of the fair value of the collateral or the amount of outstanding cash loan and lease receivable balance against which the collateral acquired:

	31 December 2017
Cash blockage	1,499
Mortgages	118,575
Cheques and notes receivable	170,219
Vehicle and other pledges	87,501
Bank guarantees	13,841
Other corporate guarantees	39,243
Total secured	**430,878**
Unsecured (*)	282,170
Total loans to customers and finance lease receivables, gross	**713,048**

(*) As at 31 December 2017, TL 125,489 unsecured loans are granted to companies owned by reputable domestic financial groups.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

12. Loans to customers and finance lease receivables (continued)

Concentration of loans to customers

As of 31 December 2018, the Bank had a concentration of loans (including non-cash loans) represented by TL604,461 due from the ten largest third-party entities 50,9% of gross loan portfolio. An allowance of TL 12,173 is computed against these receivables.

As of 31 December 2017, the Bank had a concentration of loans (including non-cash loans) represented by TL 428,413 due from the ten largest third party.

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2018 is as follows:

31 December 2018	***Not later than 1 year***	***Later than 1 year and not later than 5 years***	***Later than 5 years***	***Total***
Gross investment in finance leases	8,784	6,350	-	**15,134**
Unearned future finance income on finance leases (-)	1,573	976	-	**2,549**
Net investment in finance leases	**7,211**	**5,374**	**-**	**12,585**

13. Other assets and liabilities

Other assets comprise:

	31 December 2018	**31 December 2017**
Other financial assets		
Clearance cheque accounts (*)	22,161	3,208
	22,161	**3,208**
Other non-financial assets		
Prepayments and receivables	844	595
Collaterals given	82	117
Other non-financial assets	818	13
	1,744	**725**
Total other assets	**23,905**	**3,933**

Other liabilities comprise:

	31 December 2018	**31 December 2017**
Other financial liabilities		
Cash collaterals obtained	-	28
Clearance cheque accounts (*)	22,161	3,208
	22,161	**3,236**
Other non-financial liabilities		
Miscellaneous payables	1,694	150
Provisions for Lawsuit	350	262
Accrued operating expenses	139	256
Deferred income on fee & commissions	1,923	1,332
Other non-financial liabilities	738	88
	4,844	**2,088**
Total other liabilities	**27,005**	**5,324**

(*) Amount consists of collateral cheques received from customers and submitted to settlement and custody bank and due as of 31 December 2018 and 31 December 2017.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

14. Investment Properties

	31 December 2018	31 December 2017
Opening balance at 1 January	**-**	**-**
Additions (subsequent expenditure)	260,916	-
Disposals	-	-
Impairment loss	(42,173)	-
Amortisation for the period	(410)	-
Closing balance at 31 December	**218,333**	**-**

The investment properties are carried at cost less amortisation less impairment. As at 31 December 2018, the fair value of the properties are based on valuations performed by Eva Gayrimenkul Değerleme Danışmanlık, Taksim Kurumsal Gayrimenkul Değerleme ve Danışmanlık and Dünya Grup Gayrimenkul Danışmanlık Değerleme A.Ş. All the firms are accredited independent valuers. The bank has recognised an impairment loss according to the valuation reports obtained since the reported fair value amount is below its cost.

15. Property and Equipment

Movement of property and equipment is as follows:

	Furniture and fixtures	*Computers and other equipment*	*Other equipment*	*Leasehold improvements*	*Motor Vehicles*	*Total*
Cost						
31-Dec-16	**212**	**992**	**71**	**77**	**-**	**1,352**
Additions	2	210	-	-	-	**212**
Disposals	-	(131)	-	-	-	**(131)**
31-Dec-17	**214**	**1,071**	**71**	**77**	**-**	**1,433**
Additions	2	1,327	-	10	**625**	**1,964**
Disposals	-	-	-	-		**-**
31-Dec-18	**216**	**2,398**	**71**	**87**	**625**	**3,397**
Accumulated depreciation						
31-Dec-16	**(51)**	**(538)**	**(71)**	**(11)**	**-**	**(671)**
Depreciation charge	(5)	(214)	-	(15)	-	**(234)**
Disposals	-	127	-	-	-	**127**
31-Dec-17	**(56)**	**(625)**	**(71)**	**(26)**	**-**	**(778)**
Depreciation charge	(5)	(201)	-	(17)	**(21)**	**(244)**
Disposals	-	-	-	-	-	**-**
31-Dec-18	**(61)**	**(826)**	**(71)**	**(43)**	**(21)**	**(1,022)**
Net book value						
31-Dec-18	**155**	**1,572**	**-**	**44**	**604**	**2,375**
31-Dec-17	**158**	**446**	**-**	**51**	**-**	**655**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

16. Intangible Assets

Intangible assets comprise software purchased and related licenses.

Movement of intangible assets is as follows:

	Computer Software	*Total*
Cost		
31-Dec-16	**1,578**	**1,578**
Additions	414	**414**
Disposals	-	-
31-Dec-17	**1,992**	**1,992**
Additions	1,081	**1,081**
Disposals	-	-
31-Dec-18	**3,073**	**3,073**
Accumulated depreciation		
31-Dec-16	**(597)**	**(597)**
Depreciation charge	(526)	**(526)**
Disposals	-	-
31-Dec-17	**(1,123)**	**(1,123)**
Depreciation charge	(676)	**(676)**
Disposals	-	-
31-Dec-18	**(1,799)**	**(1,799)**
Net book value		
31-Dec-18	**1,274**	**1,274**
31-Dec-17	**869**	**869**

17. Amounts due to customers

The amounts due to customers include demand or short-term maturing liabilities. As at 31 December 2018, TL 22,342 (31 December 2017 – TL 11,305) is short-term natured.

An analysis of customers by economic sectors is as follows:

	31 December 2018	**31 December 2017**
Non-banking & banking credit organizations	9,814	1,726
Construction	5,769	1,316
Energy	5,410	3,353
Manufacturing	630	9,420
Individuals	504	-
Mining	157	4,770
Trade and services	46	754
Holding companies	2	7,560
Real estate and & Rental services	-	3,098
Other	10	44
Amounts due to customers	**22,342**	**32,041**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

18. Amounts due to banks and money market deposits

	31 December 2018		31 December 2017	
	Amount	Maturity & interest rates	Amount	Maturity & interest rates
Payables to money market	-	-	54,672	12-14% & Jan 2018
Payables regarding repurchase agreements	-	-	8,057	5-10.15% & Jan 2018
Due to banks	658	-	22	-
Amounts due to customers	**658**	**-**	**62,751**	

19. Funds borrowed

Information on banks:

	31 December 2018				
	TL	Maturity & interest rates	**FC**	Maturity & interest rates	**Total TL and FC**
From Domestic Banks and Institutions	226	-	26,586	1.0-3.0% & Jan 2019	26,586
From Foreign Banks, Institutions and Funds	34,051	21.0-22.5% & Jan-Feb2019	388,931	1.0-3.5% & Jan2019–Aug2019	423,208
Due from Parent Bank – Foreign Bank	-	-	10,596	1.5-2.5% & Mar2019	10,596
Total	**34,277**		**426,113**		**460,390**

	31 December 2017				
	TL	Maturity & interest rates	**FC**	Maturity & interest rates	**Total TL and FC**
From Domestic Banks and Institutions	18,521	13-14.5% & Jan 2018	27,518	0.1-2.5% & Feb 2018	45,769
From Foreign Banks, Institutions and Funds	21,069	12.8-15.2% & Jan 2018	170,168	1.5-7.2% & Jan 2018 – Jan 2019	191,237
Due from Parent Bank – Foreign Bank	-	-	104,111	1.0-2.5% & Jun 2018 – Dec 2018	104,111
Total	**39,590**		**301,797**		**341,387**

Information on maturity structure of borrowings:

	31 December 2018			31 December 2017		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Short-term	34,277	426,113	460,390	39,590	62,390	101,980
Medium and Long-term	-	-	-	-	239,407	239,407
Total	**34,277**	**426,113**	**460,390**	**39,590**	**301,797**	**341,387**

For the years ending 31 December 2018 and 2017, all borrowings are fixed interest rate instruments.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

20. Debt securities issued

In year 2018, the Bank has performed ten bonds issue as of 31 December 2018. The summary information regarding those issuances and other unredeemed bonds at the balance sheet days are as follows:

Foreign currency debt securities have been issued as Eurobonds.

Code of issued security	Type	Issue date	Issued nominal amount	Maturity date	Total days	Redeem status	Carrying amount as at 31 December 2018
TRFPASH51814	Discounted	1/22/2018	36,000 TL	5/30/2018	128	Redeemed	-
TRFPASH71812	Discounted	2/16/2018	32,500 TL	7/6/2018	140	Redeemed	-
TRFPASH71820	Discounted	3/1/2018	25,000 TL	7/31/2018	152	Redeemed	-
TRFPASH91810	Discounted	5/23/2018	21,083 TL	9/4/2018	104	Redeemed	-
AZ2002020173	Couponed	6/14/2018	25,000 USD	9/14/2021	1,170		132,204
AZ2001020174	Couponed	22/09/2017	25,000 USD	22/12/2022	1,917		132,184
TRFPASHE1819	Discounted	7/6/2018	33,224 TL	10/19/2018	105	Redeemed	-
TRFPASHK1811	Discounted	7/31/2018	48,500 TL	11/13/2018	105	Redeemed	-
TRFPASHK1829	Discounted	9/4/2018	23,820 TL	11/2/2018	59	Redeemed	-
TRFPASH11917	Discounted	11/2/2018	30,600 TL	1/9/2019	68		29,725
TRFPASH21916	Discounted	11/13/2018	25,040 TL	2/8/2019	87		24,379
Total debt securities at 31 December 2018							**318,492**

Code of issued security	Type	Issue date	Issued nominal amount	Maturity date	Total days	Redeem status	Carrying amount as at 31 Dec 2017
TRQPASH61711	Discounted	13/02/2017	45,000 TL	8/6/2017	115	Redemeed	-
TRQPASH91718	Discounted	7/4/2017	27,000 TL	25/09/2017	171	Redemeed	-
TRFPASHE1710	Discounted	8/6/2017	40,500 TL	2/10/2017	116	Redemeed	-
TRFPASHE1728	Discounted	14/07/2017	38,000 TL	16/10/2017	94	Redemeed	-
AZ2001020174	Couponed	22/09/2017	25,000 USD	22/12/2022	1917	-	94,412
TRFPASH11818	Discounted	25/09/2017	30,000 TL	22/01/2018	119	-	29,252
TRFPASH21817	Discounted	2/10/2017	31,000 TL	16/02/2018	137	-	28,542
TRFPASH31816	Discounted	16/10/2017	31,500 TL	1/3/2018	136	-	29,535
Total debt securities at 31 December 2017							**181,741**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

21. Derivative financial instruments

The Bank does not have any hedging purpose derivatives. The derivatives are for trading purposes.

Derivative financial instruments held for trading purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying items, such as financial instrument prices, reference rates, commodity prices or indices. Derivative financial instruments used mainly include currency forwards, and currency swaps.

The table below shows the contractual amounts of derivative instruments analysed by the term to maturity. The contractual amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is the best estimate of the present value of the forward exchange rates. The maturity analyses of the gross nominal value of derivatives are presented below:

As at 31 December 2018 and 2017, financial assets at fair value through profit or loss as follows:

	31 December 2018		**31 December 2017**	
	Notional amount TL	**Notional amount FC**	**Notional amount TL**	**Notional amount FC**
Currency swap purchases	-	-	-	32,061
Currency swap sales	-	-	32,795	-
Currency forward purchases	1,734	47,882	22,394	-
Currency forward sales	47,446	1,584	-	22,080
	49,180	**49,466**	**55,189**	**54,141**

As at 31 December 2018 and 2017 set out below accruals of derivative instruments:

	Assets		**Liabilities**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Currency swap purchases	-	-	-	(692)
Currency forward sales	2,247	-	(116)	(380)
Fair value of derivatives	**2,247**	**-**	**(116)**	**(1,072)**

The Bank's derivative financial instruments comprise of OTC derivatives.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

22. Taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. 22% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, Corporate Tax will be applied as 22% for corporate earnings for the years 2018, 2019 and 2020.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

The current tax liabilities comprise:

	31 December 2018	**31 December 2017**
Current income tax liability (*)	4,076	1,673
Banking insurance transactions tax liability	586	278
Value added tax liability	71	162
Social security premiums payable	201	137
Other taxes, duties and premiums payable	491	274
Total	**5,425**	**2,524**

(*) As at 31 December 2018, TL 5,484 prepaid income taxes are net-off (31 December 2017 – TL 3,221)

The tax expense comprises:

	31 December 2018	**31 December 2017**
Current tax charge	(9,547)	(4,911)
Deferred tax credit/(charge)	10,280	436
Income tax expense	**733**	**(4,475)**

	31 December 2018	**31 December 2017**
Profit before tax	**(4,296)**	**22,750**
Tax calculated based on the current tax rate of 22%	-	(4,550)
Net effect of income except/(non-deductible expenses)	5,029	75
Income tax expense	**733**	**(4,475)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

22. Taxation (continued)

Deferred tax related to items credited to other comprehensive income during the year is as follows:

	31 December 2018	31 December 2017
Tax effect of net gains/(losses) on investment securities at FVOCI	(1)	(2)
Income tax credited/(charged) to other comprehensive income	**(1)**	**(2)**

Current tax related to items credited to other comprehensive income during the year is as follows:

	31 December 2018	31 December 2017
Net gains/(losses) on investment securities at FVOCI	8	17
Income tax credited/(charged) to other comprehensive income	**8**	**17**

The movements in the deferred tax asset for the year ended 31 December 2018 and 2017 are as follow:

	2017	2017
Opening - 1 January	1,423	989
IFRS 9 transition effect	545	-
Recognised in profit or loss statement	10,280	436
Recognised in other comprehensive income	(1)	(2)
Closing – 31 December	**12,171**	**1,423**

Deferred tax assets and liabilities and their movements are as follows:

		Origination and reversal of temporary differences			**Origination and reversal of temporary differences**		
	2016	**In the income statement**	**In the comprehensive income**	**2017**	**In the income statement**	**In the comprehensive income / retained earnings (*)**	**2018**
Tax effect of deductible temporary differences							
Provision for loans to customers and finance lease receivables	300	223	-	523	2,559	545(*)	3,627
Reserve for employee termination benefits and bonus provision	340	101	-	441	124	-	565
Impairment loss of investment properties	-	-	-	-	9,278	-	9,278
Miscellaneous expense accruals	54	2	-	56	(25)	-	31
Other	364	142	-	506	(32)	-	475
Deferred tax asset	**1,058**	**468**	**-**	**1,526**	**11,904**	**545**	**13,975**
Tax effect of taxable temporary differences							
Valuation differences of FVOCI securities	-	-	(2)	(2)	2	(1)	(1)
Amortization and depreciation differences	(69)	(32)	-	(101)	(1,033)	-	(1,134)
Other	-	-	-	-	(669)	-	(669)
Deferred tax liability	**(69)**	**(32)**	**(2)**	**(103)**	**(1,700)**	**(1)**	**(1,804)**
Net deferred tax asset/(liability)	**989**	**436**	**(2)**	**1,423**	**10,204**	**544**	**12,171**

(*) The IFRS 9 transition effect regarding deferred tax asset amounting to TL 545 due from expected credit losses increase in the opening balance sheet is included in this column.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

23. Employee benefits

The details of employee benefits is as follows:

	31 December 2018	**31 December 2017**
Bonus provision	2,004	1,530
Employee termination benefits provision	219	238
Unused vacation provision	346	237
	2,569	**2,005**

Reserve for employee termination benefits

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2018 is TL 5,434.42 (full TL) (31 December 2017: TL 4,732.48 (full TL)).

The Bank reserved for employee severance indemnities in the accompanying financial statements using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement payment and discounted by using the current market yield on government bonds at the reporting date in compliance with the IAS 19 - *Employee Benefits*.

As at 31 December 2018 and 2017, the major actuarial assumptions used in the calculation of the total liability are as follows:

	2018	**2017**
Discount Rate (%)	6.42	5.14
Expected Rate of Salary/Limit Increase (%)	9	7.00
Estimated Employee Turnover Rate (%)	14.89	12.50

Other benefits to employees

The Bank has provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the IAS 19 - *Employee Benefits* in the accompanying financial statements.

Movement in reserve for employee severance indemnity during the year is as follows:

	2018	**2017**
Opening - 1 January	238	180
Interest and Service cost	231	76
Cancellations due payments	(250)	(18)
Closing - 31 December	**219**	**238**

Movement in unused vacation liability provision during the year is as follows:

	2018	**2017**
Opening - 1 January	237	172
Current year provision/(cancellation), net	109	65
Closing - 31 December	**346**	**237**

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24. Equity

Share capital:

As of 31 December 2018, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 500,000 (31 December 2017: TL 255,000), comprising 500 million (Full TL) registered shares of one TL 0.01 each.

In accordance with the decision of Extraordinary General Meeting held at 18 May 2018, and within the approval of BRSA decision dated 4 May 2018 and numbered 7803, the outstanding TL 255,000 paid-in capital as at 31 December 2017 has been increased to TL 500,000 at 6 June 2018 with cash injection of TL 245,000 paid by PASHA Holding LLC.

As of 31 December 2018, the Bank's historical subscribed and issued share capital was TL 500,000 (31 December 2017: TL 255,000).

As of 31 December 2018, and 31 December 2017 the composition of shareholders and their respective percentage of ownership can be summarised as follows:

	31 December 2018		31 December 2017	
	Amount	**%**	**Amount**	**%**
PASHA Bank OJSC	254,795	50.96	254,795	99.92
PASHA Holding LLC	245,000	49.00	-	-
Others	205	0.04	205	0.08
Total	**500,000**		**255,000**	

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital but may be used to absorb losses in the event that the general reserve is exhausted. In the Ordinary General Meeting held at 16 March 2018, it was decided to distribute TL 5,331 from the statutory profit of year 2017 to legal reserves. The statutory legal reserve is TL 5,655 as of 31 December 2018 and TL 324 as of 31 December 2017.

25. Earnings per share

For the periods ended 31 December, the calculation of earnings per share was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding as follows:

	31 December 2018	**31 December 2017**
Denominator:		
Number of shares	500,000,000,000	255,000,000,000
Weighted average number of shares (*)	395,000	255,000
Numerator:		
(Loss) / Profit for the year	(3,563)	18,275
Basic and diluted profit per share	**(0.01)**	**0.06**

(*) the capital increase is disclosed in Note 24 above.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

26. Commitments and contingencies

Litigation:

The Bank has provided TL 350 (31 December 2017: TL 262) of provision for the disputed legal cases filed by various persons and institutions, high probability of occurrence and requiring cash outflow. Although there are other ongoing lawsuits that against the Bank, do not expect high possibility of against result and cash outflows related to these cases.

Financial commitments and contingencies:

The Bank enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of letters of guarantees, letters of credit and other guarantees. All these arrangements are related to the normal lending activities of the Bank. The exposure to credit loss in the event of non-performance of the other party is presented by the contractual notional amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

	31 December 2018	**31 December 2017**
Letter of credit	-	3,301
Letter of guarantee	370,961	328,776
Other guarantees	51,692	33,850
Total non-cash loans	**422,653**	**365,927**
Other commitments	17	17
Total	**422,670**	**365,944**

Non-cash loans	***Stage1***	***Stage2***	***Stage3***	***Total***
1 January 2018	**365,944**	**-**	**-**	**365,944**
New exposures	56,726	-	-	**56,726**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	(13,623)	13,623	-	**-**
Transfers to Stage 3	(3,370)	-	3,370	**-**
At 31 December 2018	**405,677**	**13,623**	**3,370**	**422,670**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

26. Commitments and contingencies (Continued)

Assets pledged as collaterals:

	31 December 2018	31 December 2017
Reserve requirement with T.R. Central Bank	76,536	67,673
Securities given as collateral	4,449	711
Total	**80,985**	**68,384**

Transferred financial assets:

As at 31 December 2018, the carrying amount of transferred financial assets, which have been transferred but are subject to continued recognition in full and the associated recognized liabilities are presented below:

	31 December 2018	31 December 2017
Securities sold under repurchase agreements		
Carrying amount of transferred assets	-	9,922
Carrying amount of associated liabilities	-	8,057

27. Expected credit / impairment losses on interest bearing assets and off-balance sheet exposures

The Bank started to apply the IFRS 9 standard beginning form 1 January 2018. The movements in expected credit losses on financial assets for year 2018 were as follows:

	Cash and cash equivalents	*Reserve requirements*	*Securities at FVTOCI*	*Securities at amortised cost*	*Corporate lending and leasing*	*Total expected credit losses*
At 31 December 2017	**-**	**-**	**-**	**-**	**2,378**	**2,378**
IFRS 9 transition under equity	8	19	180	-	880	1,087
At 1 January 2018 (*)	**8**	**19**	**180**	**-**	**3,258**	**3,465**
Charge/(reversal) for the year	18	35	(89)	480	11,698	12,142
At 31 December 2018 (*)	**26**	**54**	**91**	**480**	**14,956**	**15,607**

(*) The details of the charge/(reversal) for the year is available in the related notes for each type of asset.

The movements in expected credit losses for off-balance sheet exposures for year 2018 were as follows:

	Expected credit losses for off-balance sheet exposures given to corporate customers	*Total expected credit losses for off-balance sheet exposures*
At 31 December 2017	**-**	**-**
IFRS 9 transition under equity	1,390	1,390
At 1 January 2018	**1,390**	**1,390**
Charge for the year	5,521	5,521
At 31 December 2018	**6,911**	**6,911**

Total net credit loss expense charge in the income statement for the year is TL 17,663.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

28. Net fee and commission income

Net fee and commission income comprise:

	2018	2017
Guarantees and letters of credit	3,669	2,254
Money transfer operations	153	50
Settlements operations	140	35
Other	362	124
Fee and commission income	**4,324**	**2,463**
Fee to correspondent banks	(412)	(268)
Money transfer operations-expenses	(351)	(111)
Commissions for letter of guarantee obtained	(314)	(227)
Settlements operations	(79)	(56)
Fee and commission expense	**(1,156)**	**(662)**
Net fee and commission income	**3,168**	**1,801**

29. Personnel, general and administrative expenses

Personnel expenses comprise:

	2018	2017
Salaries and bonuses	10,763	8,704
Social security costs	1,160	926
Other employee related expenses	1,813	1,028
Total personnel expenses	**13,736**	**10,658**

General and administrative expenses comprise:

	2018	2017
Professional services	2,307	3,223
Operating leases	1,907	1,868
IT and software expenses	2,090	1,788
Subscription fees	1,361	573
Taxes, other than income tax	1,160	564
Communications	219	442
Advertising costs	155	427
Transportation and business trip expenses	517	422
Security expenses	270	242
Representation	289	138
Insurance expenses	212	112
Stationary	364	100
Utilities	132	90
Repair and maintenance	344	46
Other expenses	529	566
Total general and administrative expenses	**11,856**	**10,601**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

30. Related party disclosures

Several transactions were entered into with related parties in the normal course of business. The nature of the related party transactions and balances are presented below.

Balances with related parties:

Cash loans

	31 December 2018	31 December 2017
PASHA Bank OJSC (Parent)	826	555
	826	**555**

Non-Cash loans

	31 December 2018	31 December 2017
PASHA Bank OJSC (Parent)	22,983	31,699
Pd Turizm ve Gayrimenkul A.Ş. (Other)	66	-
	23,049	**31,699**

Amounts due from banks

	31 December 2018	31 December 2017
PASHA Bank OJSC (Parent)	222	1
	222	**1**

Amounts due to banks and funds borrowed

	31 December 2018	31 December 2017
PASHA Bank OJSC (Parent)	10,596	104,131
JSC PASHA Bank Georgia (Other)	-	7,250
Kapital Bank ASC (Other)	26,880	75,374
	37,475	**186,755**

Debt securities issued

	31 December 2018	31 December 2017
PASHA Holding	132,204	-
PASHA Life Insurance (Other)	100,195	71,565
PASHA Insurance (Other)	26,437	18,882
	258,836	**90,447**

Interest and commission income

	1 January – 31 December 2018	1 January – 31 December 2017
PASHA Bank OJSC (Parent)	352	335
JSC PASHA Bank Georgia (Other)	2	9
Pd Turizm ve Gayrimenkul A.Ş. (Other)	47	-
	401	**344**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

30. Related party disclosures (continued)

Interest and commission expense

	1 January – 31 December 2018	1 January – 31 December 2017
PASHA Holding	1,657	-
PASHA Bank OJSC(Parent)	3,544	5,059
JSC PASHA Bank Georgia (Other)	115	527
Kapital Bank ASC(Other)	1,806	1,337
PASHA Life Insurance (Other)	3,479	963
PASHA Insurance (Other)	918	254
	11,519	**8,140**

Compensation of key management personnel of the Bank

The executive and non-executive members of Board of Directors and key management received remuneration and fees amounting to TL 4.397 (2017: TL 3,388).

31. Subsequent events

The Bank has issued new debt securities after balance sheet date. The details of the debts issued are as follows:

Isın Code	Issue date	Maturity	Nominal	Nominal Interest (%)
AZ2003020172	17-Jan-19	17-Apr-22	USD 25,000,000	2.95
TRFPASH31915	8-Feb-19	27-Mar-19	TL 25,000,000	21.5
TRFPASH41914	9-Jan-19	9-Apr-19	TL 25,000,000	23.5