TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

Consolidated Financial Statements
As at and for the Year Ended 31 December 2017
With Independent Auditors' Report Thereon

8 March 2018

This report contains the "Independent Auditors' Report" comprising 4 pages and; the "Consolidated financial statements and their explanatory notes" comprising 62 pages.

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Independent Auditors' Report

To the Board of Directors' of Turkish Bank Anonim Şirketi

Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Turkish Bank Anonim Şirketi ("the Bank"), and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

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

Impairment on loans to customers

Refer to Note 9 "Loans and Advances to Customers" for the relevant accounting policy and a discussion of significant accounting estimates.

Key audit matter	How the matter was addressed in our audit
The appropriateness of loan loss provisions is a key area of judgment for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.	We assessed and tested the design and operating effectiveness of the controls over impairment calculations including the quality of underlying data and systems. For loan loss provisions calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. For loan loss provisions calculated on a collective basis we tested, the underlying models including the model approval. We also tested the appropriateness and accuracy of the inputs to those models, such as recovery and cure rates, and where available, compared data and assumptions made to external benchmarks. Finally we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosures for forbearance and cover values.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Funda Aslanoğlu, SMMM
Partner

8 March 2018
İstanbul, Turkey

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TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017

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

	Notes	Audited 2017	Audited 2016
Assets			
Cash and balances with the Central Bank of Turkey	5	100,552	87,847
Loans and advances to banks	6	95,845	187,211
Money market placements	7	15,667	10,097
Financial assets at fair value through profit or loss	8	12,376	7,663
-Trading investment securities		*11,219*	*5,886*
-Derivative financial instruments		*1,157*	*1,777*
Loans and advances to customers	9	1,220,490	1,024,446
Available for sale financial assets	10	10,380	52,800
Property and equipment	11	14,240	12,099
Intangible assets	13	4,183	5,053
Deferred tax assets	18	2,689	3,089
Other assets	13	125,784	122,327
TOTAL ASSETS		**1,602,206**	**1,512,632**
Liabilities			
Deposits	14	1,172,952	1,098,298
Obligations under repurchase agreements and money market funding	15	19,967	52,689
Funds borrowed	16	92,103	76,833
Derivative financial liabilities	8	1,301	287
Debt securities issued	17	60,250	57,600
Current tax liability	18	3,620	2,473
Employee benefits and other provisions	19	6,573	5,612
Other liabilities	20	41,816	21,884
TOTAL LIABILITIES		**1,398,582**	**1,315,676**
EQUITY			
Share capital	21	175,000	175,000
Adjustment to share capital		6,868	6,868
Reserves		6,374	5,963
Retained earnings		15,382	9,125
Total equity attributable to owners of the Bank		**203,624**	**196,956**
Non-controlling interests		**-**	**-**
TOTAL EQUITY		**203,624**	**196,956**
TOTAL LIABILITIES AND EQUITY		**1,602,206**	**1,512,632**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017
Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

	Notes	Audited 2017	Audited 2016
Interest income		133,323	103,520
Interest expense		(64,809)	(46,865)
Net interest income	22	**68,514**	**56,655**
Fee and commission income		13,878	11,164
Fee and commission expense		(3,295)	(2,657)
Net fee and commission income	23	**10,583**	**8,507**
Foreign exchange losses, net	24	(7,751)	5,699
Trading gains, net	24	(736)	(7,320)
Gains from investment securities, net	24	80	(313)
Other operating income	25	2,704	9,890
Operating income, net		**73,394**	**73,118**
Impairment losses on loans and credit related commitments, net		(2,042)	(10,929)
Other operating expenses	26	(64,656)	(56,490)
Profit before income tax		**6,696**	**5,699**
Income tax income/(expense)	18	(1,349)	(569)
Deferred tax income/(expense)	18	1,218	497
Profit for the year		**6,565**	**5,627**
Profit Attributable to:			
Equity holders of the Bank		6,565	5,627
Non-controlling interest		-	-
Earnings per share:			
Basic and diluted earnings per share (expressed in full TL)	2.28	0.0375	0.0322

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	Audited 2017	Audited 2016
Profit for the year:		**6,565**	**5,627**
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Net change in fair value of available for sale financial assets		156	2,413
Available for sale financial assets transferred to profit or loss		32	25
Related tax		(38)	(488)
Items that never will be reclassified to profit or loss:			
Actuarial loss related to employee benefits	19	(59)	(140)
Related tax		12	28
Other comprehensive income, net of income tax		**103**	**1,838**
Total comprehensive income		**6,668**	**7,465**

Total comprehensive income attributable to		
Equity holders of the Bank	6,668	7,465
Non-controlling interests	-	-
Total comprehensive income	**6,668**	**7,465**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

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

Audited	Notes	Share Capital	Adjustment to share capital	Remeasurement and reclassification gain/loss	Legal reserves	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total equity
Balance at 1 January 2016		**175,000**	**6,868**	**(893)**	**4,947**	**2,638**	**188,560**	**-**	**188,560**
Profit for the year		-	-	-	-	5,627	5,627	-	5,627
Other comprehensive income		-	-	1,950	-	(112)	1,838	-	1,838
Total other comprehensive income		**-**	**-**	**1,950**	**-**	**5,515**	**7,465**	**-**	**7,465**
Contributions by and distributions to owners									
Transfers to reserves		-	-	-	191	(191)	-	-	-
The effect of changes in the equity of subsidiaries		-	-	-	(232)	1,163	931	-	931
Balance at 31 December 2016	**21**	**175,000**	**6,868**	**1,057**	**4,906**	**9,125**	**196,956**	**-**	**196,956**
Balance at 1 January 2017		**175,000**	**6,868**	**1,057**	**4,906**	**9,125**	**196,956**	**-**	**196,956**
Profit for the year		-	-	-	-	6,565	6,565	-	6,565
Other comprehensive income		-	-	150	-	(47)	103	-	103
Total other comprehensive income		**-**	**-**	**150**	**-**	**6,518**	**6,668**	**-**	**6,668**
Contributions by and distributions to owners									
Transfers to reserves		-	-	-	261	(261)	-	-	-
Balance at 31 December 2017	**21**	**175,000**	**6,868**	**1,207**	**5,167**	**15,382**	**203,624**	**-**	**203,624**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

	Notes	Audited 2017	Audited 2016
Cash flows from operating activities			
Profit for the year		**6,565**	**5,627**
Adjustments for:			
Depreciation and amortization expense	11,12	3,971	3,121
Impairment losses on loans and credit related commitments		2,042	10,929
Income tax expense	18	131	72
Provision for employee benefits	19	995	1,064
Net interest income		56,616	51,460
Net fee and commission income		13,815	11,845
Collections from written off loans		972	752
Payments to personnel and service suppliers		(54,099)	(48,040)
Taxes paid		2	-
		31,010	**36,830**
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		-	(3,346)
Loans and advances to banks and customers		(190,455)	(212,419)
Other assets		(6,083)	(10,095)
Deposits from banks and customers		73,442	323,946
Other borrowed funds		15,463	(61,076)
Other liabilities		(66,841)	(80,567)
Net cash used in operating activities		**(143,464)**	**(6,727)**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	11,12	(1,281)	(8,827)
Proceeds from sales of property and equipment		149	-
Acquisition of available for sale financial assets	10	-	(22,350)
Proceeds from sales of available for sale financial assets	10	42,420	35,792
Proceeds from sale of subsidiaries		-	5,000
Net cash from investing activities		**41,288**	**9,615**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities issued		58,048	67,427
Repayment of funds borrowed and debt securities issued		(59,000)	(65,000)
Net cash from / (used in) financing activities		**(952)**	**2,427**
Net (decrease)/increase in cash and cash equivalents		**(103,128)**	**5,315**
Cash and cash equivalents at the beginning of the year	5	**285,153**	**213,054**
Effect of exchange rate fluctuations on cash and cash equivalents		30,037	66,784
Cash and cash equivalents at the end of the year	**5**	**212,062**	**285,153**

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

1. GENERAL INFORMATION

Turkish Bank A.Ş. ("the Bank") was incorporated in Turkey on 14 September 1991 and commenced operations on 25 December 1991. The registered office address of the Bank is as follows: Vali Konağı Cad. 1, 34371 Nişantaşı - Istanbul, Turkey. The Bank has 12 branches (2016: 13). The Bank and its subsidiaries in total have 271 employees as of 2017 (2016: 268).

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

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

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

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

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

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

1. GENERAL INFORMATION (cont'd)

As of 31 December 2017 and 31 December 2016, the composition of shareholders and their respective % of ownership are summarized as follows:

	31 December 2017		31 December 2016	
	Amount	**%**	**Amount**	**%**
Özyol Holding A.Ş.	103,118	58.92	103,118	58.92
National Bank of Kuwait	60,000	34.29	60,000	34.29
Mehmet Tanju Özyol	9,861	5.63	9,861	5.63
Others	2,021	1.16	2,021	1.16
Total	**175,000**	**100**	**175,000**	**100**

The Group Information

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

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

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 31 December 2017 and 31 December 2016 are as follows:

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		2017	**2016**
Turkish Yatırım A.Ş.	Turkey	99.99	99.99
Turkish Bilgi İşlem Hizmetleri A.Ş.(*)	Turkey	99.99	99.99

(*) Turkish Faktoring Hizmetleri A.Ş. had been liquidated and Turkish Bilgi İşlem Hizmetleri A.Ş. was founded as of 22 October 2015 with the permission of Banking Regulation and Supervision Agency. Since the company has immaterial asset and income size as of the 31 December 2017, Turkish Bilgi İşlem Hizmetleri A.Ş. is not taken into consolidation scope.

Turkish Yatırım A.Ş.

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

Turkish Bilgi İşlem Hizmetleri A.Ş.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance:

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were approved by the Board of Directors of the Bank on 8 March 2018.

2.2 Basis of measurement:

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

2.3 Basis of presentation of consolidated financial statements:

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

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

2.4 Inflation accounting:

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Basis of Consolidation:

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

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

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

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

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

2.6 Income and Expense Recognition:

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Interest and other income and expenses are recognized on an accrual basis, except for fees and commissions for various banking services rendered which are recognized as income when received. Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income on overdue loans is recognized on a cash basis when collected. Income and expenses are recognized at fair value or amortized cost basis. For the purpose of convenience, certain income and expenses are recognized on a straight line basis wherever does not materially differ from fair value or amortized cost method.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.7 Functional and Presentation Currency and Foreign Currency Transactions:

Functional and presentation currency

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

Foreign currency translation

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

Exchange differences are recognized in profit or loss in the period in which they arise.

As at 31 December 2017 and 31 December 2016 foreign currency assets and liabilities of the Group are mainly in USD and Euro. As of 31 December 2017 and 31 December 2016 exchange rates of USD and Euro are as follows:

	2017	**2016**
1 USD	3.8104	3.5318
1 Euro	4.5478	3.6939

Average rates for the last thirty dates are as follows:

	2017	**2016**
1 USD	3.8494	3.4848
1 Euro	4.5572	3.6775

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets:

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

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

Effective interest method

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

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

Financial assets at FVTPL

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

Held-to-maturity investments

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

Effective interest method

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets: (cont'd)

Financial assets at FVTPL

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

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

Loans and receivables

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

Impairment of financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd)

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

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

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

Cash and cash equivalents

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

2.9 Financial liabilities:

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

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

Financial liabilities at FVTPL

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

The Group does not have financial liabilities at FVTPL as of 31 December 2017 and 31 December 2016.

Other financial liabilities

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.9 Financial liabilities (cont'd)

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

Interest-bearing deposits and borrowings

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

Equity instruments

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

Off balance sheet commitments and contingencies

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

2.10 Fair value considerations:

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Fair value considerations (cont'd)

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

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

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

2.11 Derivative financial instruments:

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates, as estimated based on the available quoted market rates prevailing at the reporting date. All unrealized gains and losses on these instruments are included in the statement of income. Unrealized gains and losses on these instruments are not deductible for tax purposes.

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

The Group does not have any derivatives held for hedging purposes.

2.12 Investments under resale or repurchase transactions:

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

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

2.13 Loans and allowance for impairment losses:

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.13 Loans and allowance for impairment losses (cont'd)

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

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

2.14 Leasing - the Group as lessor:

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

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

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

2.15 Leasing - the Group as lessee:

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.16 Factoring receivables:

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment. Provision for impaired factoring receivables are recognized as an expense and written off against the profit for the year. Provision for impaired factoring receivables is allocated assessing the Group's loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current factoring receivables.

2.17 Property and equipment:

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.18 Intangible assets:

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

2.19 Impairment of non-financial assets:

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

2.20 Borrowing costs:

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

2.21 Provisions:

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

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

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

2.22 Severance indemnity provision:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.23 Taxation and deferred income taxes:

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

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

Current tax

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

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

Deferred tax

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.23 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

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

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

Current and deferred tax for the period

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

2.24 Business and geographical segments:

Business Segments

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

Geographical Segments

The Group's operations are mainly located in Turkey.

2.25 Use of estimates:

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 2.8.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Use of estimates (cont'd)

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 2.8. For financial instruments that require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 2.8.

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets and liabilities as "trading", the Group has determined that it meets the description of held for trading investments and liabilities set out in accounting policy 2.8.

- In classifying financial assets as "available for sale", the Group has determined that it meets the description of available for sale investments set out in accounting policy 2.8.

Details of the Group's classification of financial assets and liabilities are given in note 30.

2.26 Offsetting:

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

2.27 Customer assets:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.28 Earnings per share

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

	2017	2016
Profit attributable to equity holders of the Bank	6,565	5,627
Weighted average number of ordinary shares in issue (thousand)	175,000	175,000
Basic earnings and diluted per thousand share (expressed in full TL)	**0.0375**	**0.0322**

The Bank do not have diluted shares.

3. ADOPTION OF NEW AND REVISED STANDARDS

Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 issued in May 2014 replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which companies expect to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 - Revenue from Customer with Contracts and other enacted TFRS amendments do not have significant impact on Bank's accounting policies, financial position and performance.

IFRS 9 Financial Instruments

The last version of IFRS 9 issued in July 2014, replaces the existing guidance in IAS 39 "*Financial Instruments: Recognition and Measurement*". It also carries forward the guidance on recognition, classification, measurement and derecognition of financial instruments from IAS 39 to IFRS 9. The last version of IFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of IFRS 9. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

3. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

IFRS 9 Financial Instruments (cont'd)

The Group will recognize an adjustment to opening equity balance to reflect new requirements of classification and measurement and impairment as of 1 January 2018. Furthermore, in accordance with IFRS 9, the Group will calculate deferred tax on the stage one and two credit losses and the effect of calculated deferred tax asset will be reflected to equity during the first transition period.

The Group does not expect that application of IFRS 9 will have significant impact on its consolidated financial statements.

Recognition and Measurement of Financial Instruments

In accordance with IFRS 9 Financial Instrument standard, recognition and measurement of financial assets are determined on the basis of the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and interest ("SPPI")".

Upon initial recognition, each financial asset is classified as either fair value through profit or loss ("FVTPL"), amortised cost or fair value through other comprehensive income ("FVOCI"). The classification and measurement of financial liabilities remain largely unchanged under IAS 39 current requirements.

Based on the business models and contractual cash flow characteristics of the financial instruments, no significant impact is expected on the classification of financial instruments in comparison to IAS 39 current classification requirements.

Loans and receivables are held to collect contractual cash flows and such cash flows consist of principal and interest collections. The Bank analysed contractual cash flow characteristics of these financial instruments and decided to classify such instruments as financial assets valued at amortised cost. Accordingly, there is not any change in comparison to IAS 39 current classification.

Some of the financial assets measured at fair value with changes in other comprehensive income are classified as amortised cost as they meet the requirement of contractual cash flows represent SPPI depending on the characteristics of their business models.

There is no change on the classification of the financial assets valued at fair value through profit or loss.

Hedge Accounting

The Bank does not apply hedge accounting.

3. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

IFRS 9 Financial Instruments (cont'd)

Impairment

In accordance with the "Regulation on the Classification of Loans and Provisions to be Set Aside for Those Loans" published in the Official Gazette, numbered 29750, dated 22 June 2016, the Group will begin to calculate provision for impairment of financial instruments, loans and other receivables under IFRS 9 as of 1 January 2018.

In accordance with IFRS 9, expected credit loss provision is set aside for financial asset is classified as amortized cost or fair value through other comprehensive income, financial collateral agreements and loan commitments. Expected credit loss is estimation should include objective information weighted according to possibilities and that can be supported about past events, existing conditions and predictions about future economic conditions.

The expected credit loss is determined according to a "three-stage" impairment model based on the change in the credit quality of financial assets within the scope of IFRS 9 after initial recognition:

• Stage 1: For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. 12 month expected credit loss is recognized.

• Stage 2: In the event of significant increase in credit risk since initial recognition, the financial asset is transferred into Stage 2. Lifetime expected credit loss is recognized.

• Stage 3: Stage 3 includes financial assets that have sufficient and objective evidence of impairment at the reporting date. Lifetime expected credit loss is recognized.

It is not anticipated a significant impact on the total equity as a result of the impairment calculation based expected credit loss model in accordance with IFRS 9. The impact of implementation for this standard is based on the assessments made. As of the transition date, it is still ongoing the revisions on the accounting policies, relevant processes and internal controls. Accordingly, there might be changes in the anticipated impact of IFRS 9 on the financials until announcement of the first time adoption financial statement including the opening balance sheet as of 1 January 2018.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

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

3. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

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

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 2.

IAS 40 – *Transfers of Investment Property*

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Annual Improvements to IFRSs – 2012–2014 Cycle

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

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters related to disclosures for financial instruments, employee benefits and financial statements.

IAS 28 - "Investments in Associates and Joint Ventures"

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

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

3. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before January 1, 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 4.

4. SEGMENT REPORTING

Business segments

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

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

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

4. SEGMENT REPORTING (cont'd)

Business segments (cont'd)

2016	Consumer/ Commercial	Corporate	Investment and Brokerage	Treasury/ Head Office	Total
Net interest income	19,509	16,940	3,840	16,366	56,655
Net fee and commission income	1,611	3,819	5,390	(2,313)	8,507
Foreign exchange gains / (losses), net	-	-	76	5,623	5,699
Trading gains and losses, net	-	-	21	(7,341)	(7,320)
Gains / losses from investment securities, net	-	-	36	(349)	(313)
Other operating income	1,431	350	7	8,102	9,890
Impairment losses on loans and advances, net	(7,663)	-	-	(3,266)	(10,929)
Other operating expenses	(11,344)	(4,561)	(9,114)	(31,471)	(56,490)
Profit / (Loss) before taxations	**3,544**	**16,548**	**256**	**(14,649)**	**5,699**
Income tax expense	-	-	(54)	(18)	(72)
Net profit / (Loss)	**3,544**	**16,548**	**202**	**(14,667)**	**5,627**

Balance Sheet	Consumer/ Commercial	Corporate	Investment and Brokerage	Treasury/ Head Office	Total
Total assets	**342,145**	**674,302**	**39,195**	**456,990**	**1,512,632**
Liabilities	770,357	160,440	11,174	373,705	1,315,676
Equity	-	-	-	196,956	196,956
Total liabilities and equity	**770,357**	**160,440**	**11,174**	**570,661**	**1,512,632**

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

5. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand	13,058	19,812
Demand deposit with the Central Bank of Turkey	87,494	68,035
Total	**100,552**	**87,847**

a) Balances with the Central Bank

	2017	2016
Demand deposits – Turkish Lira	19,515	7,728
Demand deposits – Foreign Currency	67,979	60,307
Total	**87,494**	**68,035**

b) Reserve deposits at the Central Bank

	2017	2016
Reserves – Foreign Currency (Note 15)	103,724	97,538
Total	**103,724**	**97,538**

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

The reserve rates for TL liabilities vary between 4.00% and 10.50% for TL deposits and other liabilities according to their maturities as of. The reserve rates for foreign currency deposits vary between 8.00% and 12.00% and for other foreign currency liabilities between 4.00% and 24.00% as of 31 December 2017.

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

Cash and cash equivalents at the end of the period:

	2017	2016
Cash	**100,552**	**110,931**
Cash in TL / Foreign currency	13,058	19,812
CBRT	87,494	68,035
Banks	-	23,084
Cash equivalents	**111,510**	**174,222**
Interbank money market	-	10,000
Time deposits (Up to 3 month)	111,510	164,222
Total cash and cash equivalents	**212,062**	**285,153**

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

6. LOANS AND ADVANCED TO BANKS

	2017	2016
Domestic Banks		
Demand deposits – Turkish Lira	18	236
Demand deposits – Foreign currency	1,127	184
Time deposits – Turkish Lira	15	16,832
Time deposits – Foreign currency	58,570	158,829
Total	**59,730**	**176,081**
Foreign Banks		
Demand deposits – Foreign currency	36,115	11,130
Total	**36,115**	**11,130**
Grand Total	**95,845**	**187,211**

The time deposits in Turkish Lira above mature within one month and earn interest at rates ranging from 11.75% to 12.75% (31 December 2016: from 11.25% to 11.85%) per annum. The time deposits in foreign currency above mature within one month and earn interest at rates ranging from 0.02% to 2.75% (31 December 2016: from 0.02% to 1.00%) per annum.

7. MONEY MARKET PLACEMENTS

	2017	2016
Funds lent under reverse repurchase agreements	10,506	7,502
Interbank placements	5,161	2,595
Total	**15,667**	**10,097**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
Investment securities held for trading	11,219	5,886
Derivative financial instruments	1,157	1,777
Total	**12,376**	**7,663**

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (cont'd)

a) Trading securities

	2017	2016
Government bonds	11,219	5,886
Total	**11,219**	**5,886**

b) Derivative financial instruments

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

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	2017		2016	
	TL	**FC**	**TL**	**FC**
Forward transactions	9	455	10	56
Swap transactions	459	220	86	1,625
Futures transactions	-	-	-	-
Options	-	14	-	-
Other	-	-	-	-
Total	**468**	**689**	**96**	**1,681**

	2017		2016	
	TL	**FC**	**TL**	**FC**
Forward transactions	5	-	9	13
Swap transactions	994	293	246	17
Futures transactions	-	-	-	-
Options	-	9	-	-
Other	-	-	2	-
Total	**999**	**302**	**257**	**30**

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (cont'd)

b) Derivative financial instruments (cont'd)

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

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

	2016							
	Fair value assets	**Fair value liabilities**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Notional amount in TL equivalent**
Forward exchange contracts	**66**	**24**	**28,011**	**-**	**-**	**-**	**-**	**28,011**
Purchases	-	-	14,028	-	-	-	-	14,028
Sales	-	-	13,983	-	-	-	-	13,983
Currency swap	**1,401**	**-**	**35,310**	**29,199**	**-**	**-**	**-**	**64,509**
Purchases	-	-	17,659	15,298	-	-	-	32,957
Sales	-	-	17,651	13,901	-	-	-	31,552
Interest rate swap	**310**	**263**	**-**	**-**	**-**	**134,856**	**-**	**134,856**
Purchases	-	-	-	-	-	67,428	-	67,428
Sale	-	-	-	-	-	67,428	-	67,428
Total	**1,777**	**287**	**63,321**	**29,199**	**-**	**134,856**	**-**	**227,376**

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

9. LOANS AND ADVANCES TO CUSTOMERS

	2017	**2016**
Corporate loans	420,567	420,326
Small and medium enterprise loans	392,478	329,828
Consumer loans	4,708	4,776
Credit card receivables	1,317	1,210
Other	428,193	293,064
Subtotal	**1,247,263**	**1,049,204**
Specific allowance for impairment losses on loans	(20,965)	(16,056)
Collective allowance for loan losses	(5,808)	(8,702)
Total	**1,220,490**	**1,024,446**

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

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

31 December 2016	**EUR %**	**USD %**	**TRY %**
Loans and advances to customers	5.13	5.77	12.45

31 December 2017	**Corporate**	**SME**	**Consumer**	**Other**	**Total**
Neither past due not impaired	399,661	347,288	5,958	427,094	1,180,001
Past due not impaired	5,688	39,948	8	653	46,297
Individually impaired	15,218	5,242	59	446	20,965
Total gross	**420,567**	**392,478**	**6,025**	**428,193**	**1,247,263**
Less: allowance for individually impaired loans	15,218	5,242	59	446	20,965
Less: allowance for collectively impaired loans	-	-	-	5,808	5,808
Total allowance for impairment	**15,218**	**5,242**	**59**	**6,254**	**26,773**
Total loans (net)	**427,686**	**364,899**	**5,966**	**421,939**	**1,220,490**

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

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

31 December 2016	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired	378,222	323,004	5,575	292,629	999,430
Past due not impaired	32,176	1,180	355	7	33,718
Individually impaired	9,928	5,644	56	428	16,056
Total gross	**420,326**	**329,828**	**5,986**	**293,064**	**1,049,204**
Less: allowance for individually impaired loans	9,928	5,644	56	428	16,056
Less: allowance for collectively impaired loans	-	-	-	8,702	8,702
Total allowance for impairment	**9,928**	**5,644**	**56**	**9,130**	**24,758**
Total loans (net)	**410,398**	**324,184**	**5,930**	**283,934**	**1,024,446**

Movement in allowance for the impairment losses on loans are as follows:

Specific Allowance for Individual Impairment Losses:	2017	2016
As at 1 January	16,056	11,462
Charge for the year	5,881	7,931
Reversal of impairment allowances no longer required	(972)	(3,337)
Amounts written off	-	-
As at 31 December	**20,965**	**16,056**

Collective allowance for Loan Losses:	2017	2016
As at 1 January	8,702	7,678
Charge for the year	-	1,321
Reversal of impairment allowances no longer required	(2,894)	(297)
As at 31 December	**5,808**	**8,702**

A reconciliation of the allowance for individual impairment losses on loans by customer groups is as follows:

31 December 2017	Corporate	SME	Consumer	Other	Total
At 1 January	9,928	5,644	56	428	16,056
Charge for the year	5,683	174	3	21	5,881
Recoveries	(393)	(576)	-	(3)	(972)
Reversal of impairment allowances no longer required	-	-	-	-	-
Other	-	-	-	-	-
Balance as at 31 December	**15,218**	**5,242**	**59**	**446**	**20,965**

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

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

31 December 2016	Corporate	SME	Consumer	Other	Total
At 1 January	3,092	4,815	61	3,494	11,462
Charge for the year	6,836	1,066	1	28	7,931
Recoveries	-	(237)	(6)	(26)	(269)
Other(*)	-	-	-	(3,068)	(3,068)
Balance as at 31 December	**9,928**	**5,644**	**56**	**428**	**16,056**

(*) As of 30 September 2016, the liquidation process of Tasfiye Halinde Turkish Finansal Kiralama A.Ş. was finalised and the entity went out of business. As of the reporting date, Tasfiye Halinde Turkish Finansal Kiralama A.Ş. is not taken into consolidation scope. The impairment loss amounting to TL 166 is cancelled from the "other" line.

Turkish Faktoring Hizmetleri A.Ş. had been liquidated and Turkish Bilgi İşlem Hizmetleri A.Ş. was founded as of 22 October 2015 with the permission of Banking Regulation and Supervision Agency. Since the company has immaterial asset and income size as of the 31 December 2016, Turkish Bilgi İşlem Hizmetleri A.Ş. is not taken into consolidation scope. The impairment loss, which was included in the opening balance, amounting to TL 2,902, is cancelled from the "other" line.

The total value of collaterals that the Group held for impaired loans as at 31 December 2017 was TL 999 (31 December 2016: TL 1,048). The total value of collaterals that the Group held for loans that are not impaired as at 31 December 2017 was TL 948,518 (31 December 2016: TL 741,475).

10. AVAILABLE FOR SALE FINANCIAL ASSETS

	31 December 2017	31 December 2016
Government bonds and treasury bills	7,404	50,273
Private sector bonds	-	-
Equities	2,976	2,527
Total	**10,380**	**52,800**

As of 31 December 2017, The Group has not the government bonds and treasury bills (31 December 2016: TL 44,000). The funds collected from those repo transactions were TL 10,306 (31 December 2016: TL 50,084) and they are included in obligations under repurchase agreements.

The blocked securities kept by the Central Bank and IMKB (Istanbul Stock Exchange) Takas ve Saklama Bankası A.Ş. for the purposes of trading guarantee on interbank, bond, repurchase and reverse repurchase markets and custody services as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	Nominal Value	Carrying Value	Nominal Value	Carrying Value
Government bonds and treasury bills	7,110	7,404	4,583	4,785

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

	31 December 2017	31 December 2016
Balance as at 1 January	**52,800**	**64,299**
Additions	-	22,350
Disposals (sales and redemption)	(42,608)	(36,287)
Net changes in fair value	188	2,438
Balance as at 31 December	**10,380**	**52,800**

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

11. PROPERTY AND EQUIPMENT

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

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

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

11. PROPERTY AND EQUIPMENT (cont'd)

	Buildings	Vehicles	Other fixed assets	Leasehold improvements	Total
Acquisition cost					
Opening balance, 1 January 2016	13,486	110	10,381	1,970	25,947
Additions	794	-	5,158	-	5,952
Disposals	(794)	(27)	(1,207)	-	(2,028)
Closing balance, 31 December 2016	**13,486**	**83**	**14,332**	**1,970**	**29,871**
Accumulated depreciation					
Opening balance, 1 January 2016	6,939	110	8,946	1,775	17,770
Charge for the year	265	-	820	140	1,225
Disposals	(8)	(27)	(1,188)	-	(1,223)
Closing balance, 31 December 2016	**7,196**	**83**	**8,578**	**1,915**	**17,772**
Net carrying amount as of 31 December 2016	**6,290**	**-**	**5,754**	**55**	**12,099**
Net carrying amount as of 1 January 2016	**6,547**	**-**	**1,435**	**195**	**8,177**

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

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

12. INTANGIBLE ASSETS

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

	Software	Total
Acquisition cost		
Opening balance, 1 January 2016	9,425	9,425
Additions	2,875	2,875
Disposals	(449)	(449)
Closing balance, 31 December 2016	**11,851**	**11,851**
Accumulated amortization		
Opening balance, 1 January 2016	5,336	5,336
Charge for the year	1,896	1,896
Disposals	(434)	(434)
Closing balance, 31 December 2016	**6,798**	**6,798**
Net carrying amount as of, 31 December 2016	**5,053**	**5,053**
Net carrying amount as of 1 January 2016	**4,089**	**4,089**

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

As at 31 December 2017, the Group has no intangible asset that has been generated internally (2016: None).

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

13. OTHER ASSETS

	2017	2016
Restricted amounts held with Central Bank	103,724	97,538
Clearance account	5,367	12,138
Cash advances given	4,810	1,790
Prepaid rent expense	1,048	953
Other	10,835	9,908
Total	**125,784**	**122,327**

14. DEPOSITS

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

Average interest rate for the customer deposits is 11.20% per annum for Turkish Lira deposits. For foreign currency deposits the average interest rate is 3.44% for USD deposits and 2.06% for Euro deposits (31 December 2016: 10.25% for Turkish Lira deposits, 2.61% for USD deposits and 1.52% for Euro deposits).

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

14. DEPOSITS (cont'd)

31 December 2016	**Time**	**Demand**	**Total**
TL Deposit	**315,201**	**17,720**	**332,921**
Savings deposits	223,411	6,838	230,249
Commercial deposits	69,017	10,207	79,224
Deposit from banks	22,773	675	23,448
Foreign banks	*12,719*	*640*	*13,359*
Domestic banks	*10,054*	*35*	*10,089*
FC deposits	**664,891**	**100,486**	**765,377**
Savings deposits	310,910	14,638	325,548
Commercial deposits	214,807	83,618	298,425
Deposit from banks	139,174	2,230	141,404
Foreign banks	*100,369*	*2,230*	*102,599*
Domestic banks	*38,805*	-	*38,805*
Total	**980,092**	**118,206**	**1,098,298**

15. OBLIGATIONS UNDER REPURCHASE AGREEMENTS AND MONEY MARKET FUNDING

	31 December 2017	**31 December 2016**
Obligations under reverse repurchase agreements	10,306	50,084
Money market borrowings	9,661	2,605
Total	**19,967**	**52,689**

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

16. FUNDS BORROWED

	2017	2016
Borrowings from banks located abroad:		
Unsecured foreign banks – TL short-term	6,337	2,501
Unsecured foreign banks – FC short-term	60,832	71,788
Total	**67,169**	**74,289**
Borrowings from domestic banks:		
Unsecured borrowings from local banks – TL short term	20,500	764
Unsecured borrowings from local banks – FC short term	4,434	1,780
Total	**24,934**	**2,544**
Grand Total	**92,103**	**76,833**

The interest rates for TL borrowings are between 6.59% and 12.75% (31 December 2016: 6.63% and 8.50%) while interest rates for foreign currency borrowings are between 0.01% and 2.25% (31 December 2016: 0.01% and 1.95%).

17. DEBT SECURITIES ISSUED

	Maturity Date	2017	2016
TL 15 million discounted bond	19 January 2017	-	13,000
TL 29 million discounted bond	3 April 2017	-	26,478
TL 15 million discounted bond	8 May 2017	-	18,122
TL 22 million discounted bond	9 January 2018	21,895	-
TL 19 million discounted bond	16 February 2018	18,385	-
TL 11 million discounted bond	20 April 2018	10,437	-
TL 10 million discounted bond	11 May 2018	9,533	-
Total		**60,250**	**57,600**

18. TAXATION

Corporate Tax

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

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

The effective rate of tax on 31 December 2017 is 1.96 % for the Group.

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

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate.

Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

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

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

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

18. TAXATION (cont'd)

Income withholding tax (cont'd)

Statement of Financial Position: Corporate tax

	2017	2016
Corporate tax provision	3,620	2,473
Prepaid taxes	-	-
Current Tax Liability	**3,620**	**2,473**

Income Statement

	2017	2016
Current income tax charge	(1,349)	(569)
Deferred tax income	1,218	497
Tax expense	**(131)**	**(72)**

Reconcilation of income tax expense as follows:

	31 December 2017	31 December 2016
Profit before income/(expense) tax	**6,696**	**5,699**
Taxes on income per statutory tax rate	(1,339)	(1,140)
Disallowable expenses	1,524	1,441
Other	(316)	(373)
Tax expense	**(131)**	**(72)**

Deferred Income Tax

Deferred taxes are attributable to the following items:

	Deferred tax assets		Deferred tax liabilities		Net assets / (liabilities)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Loan loss impairment provision	957	1,740	-	-	957	1,740
Employee benefits	1,088	985	-	-	1,088	985
Carry forward tax losses	-	99	-	-	-	99
Difference between carrying value and tax base of property and equipment	341	377	(11)	(13)	330	364
Court case provision	128	20	-	-	128	20
Valuation differences on investment securities	-	-	186	(119)	186	(119)
Subtotal	**2,514**	**3,221**	**175**	**(132)**	**2,689**	**3,089**
Net off	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,514**	**3,221**	**175**	**(132)**	**2,689**	**3,089**

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

18. TAXATION (cont'd)

Deferred Income Tax (cont'd)

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

	31 December 2017	31 December 2016
Deferred tax assets, net at 1 January	**3,089**	**2,825**
Deferred tax recognized in the profit or loss	1,218	497
Deferred tax recognized in other comprehensive income	(1,618)	(233)
Deferred tax assets, net at 31 December	**2,689**	**3,089**

19. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	31 December 2017	31 December 2016
Employee Benefits		
Provision for severance indemnity	2,253	1,954
Other short-term employee benefit provision	1,249	579
Vacation pay liability	478	445
Other short term employee benefits	419	361
Other		
Provisions for the court cases	2,174	2,273
Total provisions	**6,573**	**5,612**

Provision for severance indemnity

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

The amount payable consists of one month's salary limited to a maximum of full TL 4,732 (31 December 2016: full TL 4,297) for each period of service at 31 December 2017.

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

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

Provision for severance indemnity (cont'd)

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

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 6.00% discount rate of 10.5% and real discount rate of approximately 4.25% (31 December 2016: an annual inflation rate of 6.00% discount rate of 10.5% and real discount rate of approximately 4.25%). Anticipated turnover rate is also included in the calculation.

The movement for the provision for the severance indemnity:

	2017	2016
Balance as at 1 January	**1,954**	**2,006**
Payments made during the year	(696)	(1,116)
Service cost	307	269
Interest cost	214	201
Actuarial losses	(59)	140
Gain/(losses) due to payments / discharge	533	514
Other(*)	-	(60)
Balance as at 31 December	**2,253**	**1,954**

(*) As of September 30, 2016, the liquidation process of Tasfiye Halinde Turkish Finansal Kiralama A.Ş. was finalised since the entity went out of business. As of the reporting date, the severance indemnity provisions of Tasfiye Halinde Turkish Finansal Kiralama A.Ş., amounting to TL 60 which was included in the opening balance is deducted from the provision balance.

20. OTHER LIABILITIES

	2017	2016
Clearance account	5,367	12,313
Payables to card holders	3,099	3,246
Unearned income	991	1,102
Cash guarantees received	127	102
Other(*)	32,232	5,121
Total	**41,816**	**21,884**

(*) At the end of the current reporting period, other liabilities line includes TL 26,850 Turkish Yatırım A.Ş.'s customer demand deposit of asset management receivables.

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

21. EQUITY

Share capital:

	2017		2016	
Shareholders	**%**		**%**	
Özyol Holding A.Ş.	58.92	103,118	58.92	103,118
National Bank of Kuwait	34.29	60,000	34.29	60,000
Mehmet Tanju Özyol	5.63	9,861	5.63	9,861
Others	1.16	2,021	1.16	2,021
Nominal Value	**100.00**	**175,000**	**100.00**	**175,000**
Effect of inflation		6,868		6,868
Total		**181,868**		**181,868**

The Bank's paid in capital consists of 17,500,000,000 shares having a unit nominal value of 0.01 (in full TL) (31 December 2016: TL 0.01; 17,5000,000,000 shares).

Legal reserves:

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

Retained earnings comprise the actuarial losses recognized from the retirement benefit obligation amounting to TL 1,433 (31 December 2016: TL 1,386 loss).

22. NET INTEREST INCOME

	2017	2016
Interest income from		
Loans and advances to customers	126,038	93,660
Trading Investments	2,908	4,525
Loans and advances to banks	2,317	2,545
Other interest income	1,267	2,102
Money market transactions	793	688
Total interest income	**133,323**	**103,520**
Interest expense from		
Deposit from customers and banks	(53,020)	(38,194)
Issued debt securities	(7,815)	(4,539)
Other borrowed funds	(2,547)	(1,801)
Obligations under repurchase agreements and money market funding	(1,366)	(1,974)
Other interest expenses	(61)	(357)
Total interest expenses	**(64,809)**	**(46,865)**
Net interest income	**68,514**	**56,655**

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

23. NET FEE AND COMMISSION INCOME

	2017	2016
Fee and commission income on:		
General banking income	6,211	5,249
Brokerage and custody income	5,634	3,015
Electronic cards	1,288	1,445
Corporate finance	76	131
Other fees and commissions	669	1,324
Total fee and commission income	**13,878**	**11,164**
Fee and commission expense on:		
General banking expense	(2,123)	(1,652)
Electronic cards	(600)	(590)
Other	(572)	(415)
Total fee and commission expense	**(3,295)**	**(2,657)**
Net fee and commission income	**10,583**	**8,507**

24. NET TRADING INCOME

	2017	2016
Gains	**1,379,277**	**934,101**
Investment securities	363	42
Derivatives	76,997	60,615
Foreign exchange	1,301,917	873,444
Losses (-)	**1,387,684**	**936,035**
Investment securities	283	355
Derivatives	77,734	67,935
Foreign exchange	1,309,667	867,745
Total gains and losses, net		
Gains from investment securities, net	80	(313)
Trading gains and losses, net	(736)	(7,320)
Foreign exchange gains and losses, net	(7,751)	5,699
Total	**(8,407)**	**(1,934)**

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

25. OTHER OPERATING INCOME

	2017	2016
Income from the sale of assets	1,297	138
Dividend received (*)	-	4,222
Other	1,407	5,530
Total	**2,704**	**9,890**

(*) The Bank is a shareholder of Visa Europe Ltd. In 2016, as a result of acquisition of Visa Europe Ltd. by Visa Inc., the Bank recognized income from the sale.

26. OTHER OPERATING EXPENSES

	2017	2016
Wages and salaries	31,071	22,671
Rent expenses	12,048	10,175
Taxes other than income	2,253	2,338
Communication expenses	1,655	1,699
Depreciation and amortization	3,971	3,133
Professional fees and consultancy	2,856	2,677
Saving deposit insurance fund premium	993	864
Repair and maintenance expenses	222	304
Retirement benefit costs	34	10
Marketing and sales expenses	169	149
Other	9,384	12,470
Total	**64,656**	**56,490**

27. COMMITMENTS AND CONTINGENCIES

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

	2017	2016
Letters of guarantee	485,838	388,995
Foreign currency	*138,891*	*127,538*
TL	*346,947*	*261,457*
Letters of credit	13,409	14,279
Derivative financial instruments *(Note 8)*	767,481	227,376
Other commitments	81,843	59,480
Total	**1,348,571**	**690,130**

The Bank has extended TL 569 of non-cash loans to related parties (31 December 2016: TL 1,891).

The Group provides custody service on behalf and account of its customers. The value of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 283,827 at 31 December 2017 (31 December 2016: TL 244,984).

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

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The main shareholders of the Group are Özyol Holding and National Bank of Kuwait. For the purpose of these consolidated financial statements, associates, shareholders, Özyol Group companies, and National Bank of Kuwait Group entities are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

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

	2017	**2016**
Statement of financial position:		
Loans and advances to customers	-	-
Deposits	13,105	6,901
Other funds borrowed	21,355	25,901

	2017	**2016**
Income Statement:		
Interest income	-	6
Interest expense	389	355
Fee and commission income	16	151

The remuneration of members of Board of Directors and other members of key management; comprising mainly of salaries and other short-term benefits for the current period is TL 1,025 (31 December 2016: TL 923).

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

29. FINANCIAL RISK MANAGEMENT

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

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

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

Capital management

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

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

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

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

	2017	2016
Tier I capital	190,546	184,380
Tier II capital	5,808	8,702
Deductions	-	-
Total regulatory capital	**196,354**	**193,082**
Amount subject to credit risk	261	86,019
Amount subject to market risk	320	354
Amount subject to operational risk	9,457	8,956
Capital adequacy ratio (%)	**14.47**	**16.20**

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk

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

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

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

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

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

Basic Loan Quality Categories	**2017**	**2016**
	% In Total Loans	**% In Total Loans**
High grade	15.97	15.41
Standard grade	78.66	79.64
Sub-standard grade	1.77	3.37
Impaired	3.60	1.58
Total	**100.00**	**100.00**

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

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

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

	2017		2016	
Sector		**(%)**		**(%)**
Financial institutions	303,876	25.24	327,854	31.73
Construction	171,909	14.28	135,299	13.10
Wholesale and Retail Trade	147,045	12.21	57,451	5.56
Manufacturing industry	133,234	11.07	143,187	13.86
Transportation and communication	69,626	5.78	78,534	7.60
Hotel, Tourism, Food and Beverage Services	48,916	4.06	89,178	8.63
Mining and quarrying	14,180	1.18	13,427	1.30
Agriculture	5,493	0.46	7,667	0.74
Other	309,682	25.72	180,551	17.48
Performing loans	**1,203,961**	**100.00**	**1,033,148**	**100.00**
Non-performing loans				
Total loans and advances to customer	43,302		16,056	
Allowance for loan losses	(20,965)		(16,056)	
Portfolio provision for loan losses	(5,808)		(8,702)	
Net loans and advances to customers	**1,220,490**		**1,024,446**	

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

	2017		2016	
Sector		**(%)**		**(%)**
Financial institutions	293,089	55.71	274,373	64.64
Manufacturing industry	147,732	28.08	87,212	20.55
Hotel, Tourism, Food and Beverage Services	49,229	9.36	39,923	9.40
Construction	2,480	0.47	-	-
Agriculture	273	0.05	-	-
Wholesale and Retail Trade	16	-	-	-
Transportation and communication	-	-	1,100	0.26
Other	33,308	6.33	21,857	5.15
Total	**526,127**	**100.00**	**424,465**	**100.00**

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

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

	2017	2016
Loans and receivables	1,220,490	1,024,446
Balances with the Central Bank	87,494	68,035
Balances with banks	95,845	187,211
Financial assets available for sale	12,376	52,800
Money market placements	15,667	10,097
Financial assets at fair value through profit and loss	10,380	7,663
Total	**1,442,252**	**1,350,252**
Non cash loans and commitments	525,920	424,465
Total	**525,920**	**424,465**

The carrying amount of loans and receivables whose terms have been renegotiated are TL 461 (31 December 2016: TL 2,286).

Credit quality per class of financial assets as of 31 December 2017 and 31 December 2016 are as follows:

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

2016	Neither past due nor impaired	Past due or individually impaired	Total
Loans (**)			
Corporate loans	378,222	32,176	410,398
Small business lending	323,004	1,180	324,184
Consumer loans	5,575	355	5,930
Other	283,927	7	283,934
Total	**990,728**	**33,718**	**1,024,446**

(*) Includes loans and advances to customers and excludes portfolio provision for loan losses.
(**) Includes loans and advances to customers, Leasing Receivables and Factoring Receivables and excludes portfolio provision for loan losses.

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

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

Type of Collaterals	2017	2016
Real-estate mortgage	6,202	4,305
Other	402	-
Total	**6,604**	**4,305**

Liquidity risk

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

As per the BRSA Communiqué published on the Official Gazette no.26333 dated 1 November 2006 and became effective starting from June 1, 2007. "Measurement and Assessment of the Adequacy of Banks' Liquidity". The weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100% respectively. The ratios realized during the year 2017 and 2016 are as follows:

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

	2017		2016	
	TL+FC (%)	FC (%)	TL+FC (%)	FC (%)
The lowest value	176.4	156.9	140.0	101.3
Applicable week	29.12.2017	17.11.2017	18.11.2016	16.12.2016
The highest value	226.6	274.8	229.3	178.3
Applicable week	08.12.2017	15.12.2017	23.12.2016	30.12.2016

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

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

31 December 2017	Demand	Up to 1 Month	1 to 3 Month	3 to 12 Month	1 to 5 Year	Over 5 Year	Unallocated	Total
ASSETS								
Cash and balances with the Central Bank of Turkey	100,552	-	-	-	-	-	-	100,552
Loans and advances to banks	43,970	51,875	-	-	-	-	-	95,845
Money market placements	-	15,667	-	-	-	-	-	15,667
Trading investment securities	-	16	6,231	4,972	-	-	-	11,219
Derivative financial assets	-	1,002	146	9	-	-	-	1,157
Loans and advances to customer	-	430,702	111,267	359,530	296,654	-	22,337	1,220,490
Available for sale financial assets	2,976	3,140	4,264	-	-	-	-	10,380
Property and equipment (net)	-	-	-	-	-	-	14,240	14,240
Intangible assets (net)	-	-	-	-	-	-	4,183	4,183
Deferred tax asset (net)	-	-	-	-	-	-	2,689	2,689
Other assets	-	-		-			125,784	125,784
Total Assets	**147,498**	**502,402**	**121,908**	**364,511**	**296,654**	**-**	**169,233**	**1,602,206**
LIABILITIES								
Deposits	99,121	844,509	213,788	15,534	-	-	-	1,172,952
Obligations under repurchase agreements and money market funding	-	16,311	-	-	-	-	3,656	19,967
Funds borrowed	-	41,382	510	50,211	-	-	-	92,103
Derivative financial liabilities	-	851	156	294	-	-	-	1,301
Debt securities issued	-	21,912	18,385	19,953	-	-	-	60,250
Corporate tax liability	-	-	-	-	-	-	3,620	3,620
Other liabilities	-	-	-	-	-	-	252,013	252,013
Total liabilities	**99,121**	**924,965**	**232,839**	**85,992**	**-**	**-**	**259,289**	**1,602,206**
Net liquidity gap	**48,377**	**(422,563)**	**(110,931)**	**278,519**	**296,654**	**-**	**(90,056)**	**-**
As at 31 December 2016								
Total assets	113,458	622,195	95,201	216,678	300,409	22,123	142,568	1,512,632
Total liabilities	117,591	831,069	220,178	113,896	368	-	229,530	1,512,632
Net liquidity gap	**(4,133)**	**(208,874)**	**(124,977)**	**102,782**	**300,041**	**22,123**	**(86,962)**	**-**

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

Analysis of financial liabilities by the remaining contractual maturities:

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

31 December 2016	On Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Adjustments	Total
Obligations under repurchase agreements and money market funding	2,605	43,018	-	7,092	-	-	(26)	52,689
Deposits from banks	2,904	142,384	19,700	-	-	-	(136)	164,852
Deposit from customers	114,685	623,785	171,370	24,946	116	-	(1,456)	933,446
Other borrowed funds	-	25,905	13,595	37,800	-	-	(467)	76,833
Issued debt securities	-	15,000	-	44,000	-	-	(1,400)	57,600
Total	**120,194**	**850,092**	**204,665**	**113,838**	**116**	**-**	**(3,485)**	**1,285,420**

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

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

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

31 December 2016	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Total
Interest rate swap purchase	-	-	-	67,428	-	67,428
Interest rate swap sale	-	-	-	67,428	-	67,428
Currency swap purchase	17,659	15,298	-	-	-	32,957
Currency swap sale	17,651	13,901	-	-	-	31,552
Forward exchange rate contracts purchase	14,028	-	-	-	-	14,028
Forward exchange rate contracts sale	13,983	-	-	-	-	13,983
Total	**63,321**	**29,199**	**-**	**134,856**	**-**	**227,376**

Market risk

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

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

Interest rate risk

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

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

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

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

31 December 2017	Up to 1 Month	1 to 3 Month	3 to 12 Month	Over 1 Year	Non-interest bearing	Total
ASSETS						
Cash and balances with the Central Bank of Turkey	-	80,987	-	-	19,565	100,552
Balances with banks	51,875	-	-	-	43,970	95,845
Interbank money market placements	15,667	-	-	-	-	15,667
Financial assets at fair value through profit or loss (net)	1,101	6,300	4,975	-	-	12,376
Available for sale assets	3,140	4,264	-	-	2,976	10,380
Loans and advances to customer	806,426	94,738	117,937	179,053	22,336	1,220,490
Investment securities (net)	-	-	-	-	-	-
Premises and equipment (net)	-	-	-	-	14,240	14,240
Intangible assets (net)	-	-	-	-	4,183	4,183
Deferred tax asset (net)	-	-	-	-	2,689	2,689
Other assets	-	839	-	-	124,945	125,784
Total Assets	**878,209**	**187,128**	**122,912**	**179,053**	**234,904**	**1,602,206**
LIABILITIES						
Deposits	844,508	213,788	15,534	-	99,122	1,172,952
Obligations under repurchase agreements and money market funding	16,311	-	-	-	3,656	19,967
Interbank money market borrowings	-	-	-	-	-	-
Other borrowed funds	41,382	510	50,211	-	-	92,103
Derivative financial liabilities	1,054	215	32	-	-	1,301
Issued debt Securıtıes	21,895	18,402	19,953	-	-	60,250
Other liabilities	-	-	-	-	255,633	255,633
Total liabilities	**925,150**	**232,915**	**85,730**	**-**	**358,411**	**1,602,206**
Net interest sensitivity gap	**(46,941)**	**(45,787)**	**37,182**	**179,053**	**(123,507)**	**-**
As at 31 December 2016						
Total assets	845,271	219,188	78,090	208,557	161,526	1,512,632
Total liabilities	831,284	220,193	113,929	105	347,121	1,512,632
Net interest sensitivity gap	**13,987**	**(1,005)**	**(35,839)**	**208,452**	**(185,595)**	**-**

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

As at 31 December 2017 and 31 December 2016, summary of average interest rates for different assets and liabilities are as follows:

	31 December 2017			31 December 2016		
	EURO %	USD %	TL %	EURO %	USD %	TL %
Assets						
Cash and balances with the Central Bank of Turkey	-	-	0.04	-	-	0.16
Loans and advances to banks	0.28	1.40	-	0.20	-	-
Money market placements	-	-	-	-	-	-
Available for sale Assets	-	-	-	-	-	11.28
Loans and advances to customer	-	-	10.82	5.13	5.77	12.45
Leasing receivables	5.11	6.64	16.58	-	-	-
Factoring receivables	-	-	-	-	-	-
Liabilities	0.51	2.54	13.39			
Deposits from banks	2.06	3.44	11.20	1.05	1.49	9.53
Deposits from customers	-	-	-	1.52	2.61	10.25
Obligations under repurchase agreements and money market funding	-	-	-	-	-	-
Issued debit Securıtıes	-	-	-	-	-	-
Other Borrowed funds	1.66	1.60	11.95	1.53	0.48	8.27

Interest Rate Sensitivity:

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

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

		31 December 2017		31 December 2016	
Type of currency	**Shocks Applied (+ / - basis point)**	**Gains/ Losses**	**Gains/ Equity-Losses/ Equity**	**Gains/ Losses**	**Gains/ Equity-Losses/ Equity**
TL	(+) 500	(3,032)	(%1.6)	(430)	(%0.22)
TL	(-) 400	2,806	%1.4	366	%0.19
USD	(+) 200	(3,846)	(%2.0)	(7,054)	(%3.65)
USD	(-) 200	4,199	%2.2	7,799	%4.04
EUR	(+) 200	(1,591)	(%0.8)	(4,740)	(%2.45)
EUR	(-) 200	1,683	%0.9	5,171	%2.68
Total (for negative shocks)		**8,688**	**%4.5**	**13,336**	**%6.91**
Total (for positive shocks)		**(8,469)**	**(%4.4)**	**(12,224)**	**(%6.32)**

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk

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

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The tables below summarize the Group's exposures to foreign currency exchange rate risk at 31 December 2017 and 31 December 2016. Included in the table are the Group's assets and liabilities and equity at carrying amounts, categorized by currency.

Currency risk (cont'd)

Foreign currency position of the Group is as follows:

31 December 2017	EURO	USD	Other Foreign Currencies	Total
ASSETS				
Cash and balances with the Central Bank of Turkey	44,685	40,934	14,659	100,278
Loans and advances to banks	80,457	886	2,281	83,624
Available for sale assets	1,459	-	-	1,459
Loans and advances to customer	236,048	209,525	5,269	450,842
Other assets	48,862	33,669	-	82,531
Total	**411,511**	**285,014**	**22,209**	**718,734**
LIABILITIES				
Deposits	321,407	381,144	81,833	784,384
Other borrowed funds	61,580	3,430	256	65,266
Other liabilities	29,955	2,766	1,133	33,854
Total	**412,942**	**387,340**	**83,222**	**883,504**
Net balance sheet position	**(1,431)**	**(102,326)**	**(61,013)**	**(164,770)**
Off-balance sheet position				
Net notional amount of derivatives	**(29)**	**96,412**	**43,878**	**140,261**
As at 31 December 2016				
Total assets	363,807	358,960	105,128	827,895
Total liabilities	359,914	393,989	90,298	844,201
Net balance sheet position	**3,893**	**(35,029)**	**14,830**	**(16,306)**
Off-balance sheet position				
Net notional amount of derivatives	**(683)**	**34,061**	**(14,660)**	**18,718**

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

Foreign Currency Sensitivity:

The Group is mainly exposed to EUR and USD currencies.

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

	Change in currency rate in %		Effect on profit or loss		Effect on equity	
			31 December 2017	31 December 2016	31 December 2017	31 December 2016
USD	10	Increase	(591)	(97)	-	-
USD	10	Decrease	591	97	-	-
EUR	10	Increase	(146)	321	-	-
EUR	10	Decrease	146	(321)	-	-

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

Operational risk

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

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No, 28337 dated 28 June 2012, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2013, 2014 and 2015, as of 31 December 2016. The total amount subject to operational risk is calculated as TL 118,211 (31 December 2016: TL 111,955) and the amount of the related capital requirement is TL 9,457 (31 December 2016: TL 8,956).

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

29. FINNCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments

As at 31 December 2017 and 31 December 2016, fair values of financial assets and liabilities are as follows:

	Carrying Value		Fair Value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial Assets				
Financial assets at fair value through profit or loss				
- Trading securities	11,219	5,886	11,219	5,886
- Derivative financial instruments	1,157	1,777	1,157	1,777
Available-for-sale financial assets	10,380	52,800	10,380	52,800
Loans(*)	1,220,490	1,024,446	1,192,327	1,095,407
Total	**1,243,246**	**1,084,909**	**1,215,083**	**1,155,870**
Financial Liabilities				
Deposits from banks	225,572	164,852	224,914	164,706
Deposit from customers	947,380	933,446	946,126	932,390
Other borrowed funds	92,103	76,833	72,453	77,341
Derivative financial instruments	1,301	287	1,301	287
Issued debt securities	60,250	57,600	3,984	57,717
Total	**1,326,606**	**1,233,018**	**1,248,778**	**1,232,441**

(*) Non performing loans are excluded.

The fair value of available for sale securities is based on market prices. Where market prices are not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

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

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

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

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

29. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments (cont'd)

Fair value hierarchy

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

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

- **Level 1:** This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market. These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Bank's portfolio.
- **Level 2:** This category includes inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique uses inputs based on unobservable data, which could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant, unobservable adjustments or assumptions are required to reflect differences between instruments. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived.

	Level 1		Level 2		Level 3	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Financial Assets						
Financial assets at fair value through profit or loss	11,219	5,886	1,157	1,777	-	-
Available-for-sale financial assets	8,863	51,458	1,517	1,342	-	-
Total	**20,082**	**57,344**	**2,674**	**3,119**	**-**	**-**
Financial Liabilities						
Derivative financial liabilities	-	-	1,301	287	-	-
Total	**-**	**-**	**1,301**	**287**	**-**	**-**

No securities were transferred from Level 1 to Level 2 of the fair value hierarchy in 2016.

30. EVENTS AFTER THE REPORTING PERIOD

On 11 January 2018, in the nominal issue ceiling of TL 150 thousands, financing bonds issued to qualified investors in Turkish Lira, with a maturity of 151 days and a nominal value of TL 25.5 Thousands.

On 19 February 2018, in the nominal issue ceiling of TL 150 thousands, financing bonds issued to qualified investors in Turkish Lira, with a maturity of 151 days and a nominal value of TL 25.5 Thousands.