**TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND IT'S SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türkiye Vakıflar Bankası T.A.O.

Our qualified opinion

In our opinion, except for the effect of the matter on the consolidated financial statements described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Vakıflar Bankası T.A.O. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for qualified opinion

The accompanying consolidated financial statements as at 31 December 2018 include a free provision amounting to TL 1,030,000 thousand, of which TL 530,000 thousand was recognized as expense and the related deferred tax TL 106,000 thousand was recognized in the current period and TL 500,000 thousand had been recognized as expense and the related deferred tax TL 100,000 thousand had been recognized in prior periods, which is provided by the Bank management considering the negative circumstances that may arise from possible changes in the economy and market conditions, contrary to the recognition criteria of IAS 37 " Provisions, contingent liabilities and contingent assets".

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC"), "Regulation on Independent Audit of Banks" published by the Turkish Banking Regulation and Supervision Agency on the Official Gazette No.29314 dated 2 April 2015 and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

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. In addition to the matter described in the Basis for qualified opinion section we have determined the matters described below to be key audit matters to be communicated in our report.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Expected Credit Loss in Accordance With IFRS 9 "Financial Instruments Standard" ("IFRS 9") The Group has total expected credit losses of TL 11,228,640 thousands in respect to loans and receivables of TL 239,008,911 thousands which represent a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2018. Explanations and notes related to provision for impairment of loans are presented in Notes 2 and 11 in the accompanying consolidated financial statements as at 31 December 2018. As of 1 January 2018, the Group started to recognize provision for impairment of loans in accordance with "IFRS 9 Financial Instruments" expected credit loss model rather than incurred loss model. The Group exercises significant decisions using subjective judgement, interpretation and assumptions over when and how much to record as loan impairment. The Group determines staging of credit identifying significant increase in credit risk with assessments and default events presented Note 2 in the accompanying consolidated financial statements. Information used in the expected credit loss assessment such as historical loss experiences, current conditions and macroeconomic expectations should be supportable and appropriate.	With respect to stage classification of loans and calculation of expected credit losses in accordance with IFRS 9, we have assessed policy, procedure and management principles of the Group within the scope of our audit. We assessed the design and the operating effectiveness of relevant controls implemented in accordance with these principles. Within the framework of the policies and procedures applied by the Group, together with our financial risk experts, we have checked and assessed the appropriateness of the methods used in the model developed for staging of loans and calculation of expected credit losses in accordance with IFRS 9. For forward looking assumptions (including macro-economic factors) made by the Group's management in its expected credit loss calculation, we held discussions with management and evaluated the assumptions using publicly available information. We have tested model calculations through re-performance together with our modelling specialists on a sample selection basis.

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Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Expected Credit Loss in Accordance With IFRS 9 "Financial Instruments Standard" ("IFRS 9") (Continued) The Group has developed new and complex models, that requires data to be derived from multiple systems and has not been part of the financial reporting process before for determining significant increase in credit risk and calculation of IFRS 9 expected credit losses. Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the loan balances; the classification of loans as per their credit risk (staging) and the importance of determination of the associated expected credit loss. Timely and correct identification of default event and significant increase in credit risk and level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans. Therefore, this area is considered as key audit matter.	Our audit processes also include the following procedures: • The basic and important estimates and the assumptions related to macroeconomic variables, significant increase in credit risk in the calculation of expected credit losses, default definition, probability of default and loss given default were assessed and tested with the help of our financial risk experts. • We have checked expected credit losses determined based on individual assessment per Group's policy by means of supporting data, and evaluated appropriateness via communications with management. • We checked sources for data used in expected credit losses calculations. We assessed reliability and completeness of the data used in expected credit losses calculations with our information systems specialists. We checked the accuracy of resultant expected credit loss calculations on a sample basis. • To assess appropriateness of the Group's determination of staging for credit risk, identification of impairment and timely and appropriate provisioning for impairment under IFRS 9, we have performed loan review procedures based on a selected sample. • We assessed accuracy and completeness of the disclosures in the financial statements the Group presented in relation to expected credit losses.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
First time application of IFRS 9 The Group has adopted IFRS 9 to replace "IAS 39 Financial Instruments: Recognition and measurement" as of 1 January 2018. Transition resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The impact of the first application of IFRS 9 and relevant disclosures are presented in Note 3 in the accompanying consolidated financial statements as at 31 December 2018. IFRS 9 Financial Instruments Standard consists of three phases: Phase 1 - Classification and measurement of financial assets and financial liabilities; Phase 2 - Expected credit losses and Phase 3 - Hedge accounting. Management assessed the business model to determine whether its financial assets are held to collect, held to collect and sell or other. For the financial assets in every business model, management has performed assessment for each type of product to conclude whether the cash flows from financial instruments fulfil the solely of payment of principal of interest criteria ('SPPI'). IFRS 9 lead to an increase in complexity and in the degree of judgment required to calculate the expected credit losses. First time application of the standard, required significant judgment and interpretation especially in development of expected credit losses models. Regarding changes due to adoption of IFRS 9, explanations regarding Group's transition to expected credit losses approach are stated in key audit matter "Expected credit losses for loans" The Group has elected to continue to apply the hedge accounting requirements of IAS 39. As first time application of IFRS 9 requires number of decision making based on interpretation and judgment, and as it is a major change in the accounting framework of the Group, we considered this as key audit matter.	With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following; We have read the Group's IFRS 9 based classification and measurement policy for financial assets and financial liabilities, and compared it with the requirements of IFRS 9. We obtained and reviewed the Group's business model assessment. We assessed criterias used to determine contracts which give rise to cash flows that are solely payments of principal and interest, and tested contracts representing product groups based on a selected sample. Audit procedures related to IFRS 9 expected credit losses phase and relevant models are explained in the part 'how the key audit matter was addressed in the audit' of key audit matter titled "Expected credit losses for loans" We checked the appropriateness of the opening balance adjustments and disclosures presented related to first time application of IFRS 9.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Valuation of Pension Fund Obligations Explanations on Valuation of Pension Obligations are presented in Note 2 paragraph (o) in the accompanying consolidated financial statements as at 31 December 2018. "Türkiye Vakıflar Bankası Türk Anonim Ortaklığı Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı" ("the Fund") is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). The president of republic is authorized to determine the transfer date. The total obligation of the fund is estimated using separate methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. Evaluation of Pension Fund liabilities include uncertainty of estimates and assumptions such as transferrable social benefits, discount rates, salary increases, economic and demographic assumptions. The Bank's management uses external actuaries for the purpose of valuations of pension obligations. During our audit, above mentioned fundamental assumption and estimates used in calculations of pension fund obligations, uncertainty of the transfer date, technical interest rate determined by the law and significant impact from differentiation of these assumptions were taken into consideration, and this area is considered as key audit matter.	Within our audit we tested on a sample basis the accuracy of the employee data supplied by the Bank management to the external actuary firm for the purpose of evaluation pension obligation. In addition, we verified the existence and values of the Pension Fund assets. We examined whether significant changes in actuarial assumptions used in calculation, employee benefits in the period, plan assets and liabilities, and regulations related to valuations exist, and tested significant changes. Through use of our actuarial specialist, we assessed the reasonableness of assumptions and evaluation made by the external actuaries in the calculation of the liability. In addition to the above procedures, we have reviewed disclosures made with respect to pension funds.

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.

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

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

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

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

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

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

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

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

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

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

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

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

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Zeynep Uras, SMMM
Partner

Istanbul, 9 July 2019

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and balances with Central Banks	7	38,192,088	43,478,412
Financial assets at fair value through profit or loss (“FVPL”)	8	4,638,002	2,076,253
- Securities	*8*	*224,619*	*130,002*
- Derivative Financial Instruments	*8*	*4,413,383*	*1,946,251*
Financial assets at fair value through OCI (“FVOCI”)	12	11,385,945	-
- Debt Securities	*12*	*10,795,766*	-
- Equity Securities	*12*	*590,179*	-
Financial assets at amortised cost (“AC”)		269,629,322	188,963,237
- Loans and advances to banks	*10*	*1,872,988*	*626,541*
- Loans and advances to customers	*11*	*227,780,271*	*188,336,696*
- Debt securities	*12*	*39,976,063*	-
Investment securities	12	-	31,456,445
- Available-for-Sale	*12*	-	*14,690,374*
- Held-to-Maturity	*12*	-	*16,766,071*
Investments accounted for using the equity method	13	372,022	342,530
Current tax assets		2,033	2,729
Deferred tax assets	24	396,715	448,230
Property, plant and equipment	14	2,949,444	1,839,428
Intangible assets	14	396,638	373,567
Assets classified as held for sale	15	1,568,113	1,312,493
Other assets	16	15,348,976	9,237,073
Total assets		**344,879,298**	**279,530,397**
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit or loss		2,552,248	1,180,542
- Derivative financial instruments	*17*	*2,552,248*	*1,180,542*
Financial liabilities at amortised cost		292,654,288	237,718,711
- Deposits from banks	*18*	*7,064,494*	*10,016,662*
- Deposits from customers	*19*	*175,238,559*	*148,074,608*
- Obligations under repurchase agreements	*9*	*29,123,872*	*22,451,757*
- Funds borrowed	*20*	*45,432,849*	*31,387,788*
- Debt securities issued	*21*	*22,772,491*	*19,870,759*
- Subordinated debts	*22*	*13,022,023*	*5,917,137*
Liabilities classified as held for sale	15	1,546	-
Current tax liabilities	24	857,164	686,803
Deferred tax liabilities	24	31,721	16,803
Other liabilities and provisions	23	19,292,483	15,576,774
Total liabilities		**315,389,450**	**255,179,633**
Equity attributable to owners of the parent			
Share capital	26	3,300,146	3,300,146
Share premium		721,908	721,901
Revaluation surplus		1,400,964	797,587
Reserves		2,098,451	1,717,878
Retained earnings		21,082,815	17,007,392
Total equity attributable to owners of the parent		**28,604,284**	**23,544,904**
Non-controlling interests	**26**	**885,564**	**805,860**
Total equity		29,489,848	24,350,764
Total liabilities and equity		**344,879,298**	**279,530,397**
Commitments and contingencies		**131,434,807**	**101,047,001**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules.

The notes on pages 7 to 90 are an integral part of these consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
Interest income			
Interest on loans measured at AC		28,100,735	18,453,214
Interest on securities		6,090,312	2,887,492
- *Measured at FVPL (Trading financial assets)*		*16,761*	*19,051*
- *Measured at FVOCI (Available-for-sale financial assets)*		*1,049,389*	*1,734,789*
- *Measured at AC (Held-to-maturity investments)*		*5,024,162*	*1,133,652*
Interest on deposits at banks		335,149	214,969
Interest on money market placements		20,725	35,753
Other interest income		413,772	429,656
Total interest income		**34,960,693**	**22,021,084**
Interest expense			
Interest on deposits		(15,517,969)	(9,190,686)
Interest on money market deposits		(3,557,193)	(1,553,389)
Interest on funds borrowed		(1,599,774)	(841,072)
Interest expense on securities issued		(2,094,967)	(1,059,739)
Other interest expense		(741,169)	(418,935)
Total interest expense		**(23,511,072)**	**(13,063,821)**
Net interest income		**11,449,621**	**8,957,263**
Fee and commission income		3,114,751	1,896,758
Fee and commission expense		(963,703)	(663,131)
Net fee and commission income	**28**	**2,151,048**	**1,233,627**
Operating income			
Net trading income		429,180	32,765
Net foreign exchange gains		403,241	162,506
Other income	29	3,955,720	2,122,354
Total operating income		**4,788,141**	**2,317,625**
Operating expenses			
Salaries and employee benefit expenses	30	(2,462,706)	(1,987,192)
Provision for loan impairment, net of recoveries		(5,043,269)	(1,191,126)
Depreciation and amortisation		(217,070)	(187,389)
Taxes other than on income		(369,491)	(163,010)
Other expenses	31	(4,700,323)	(3,979,331)
Total operating expenses		**(12,792,859)**	**(7,508,048)**
Share of profit of associates accounted for using the equity method		55,846	49,157
Profit before income tax		**5,651,797**	**5,049,624**
Income tax expense	24	(985,895)	(1,047,468)
Profit for the period		**4,665,902**	**4,002,156**
Attributable to:			
Owners of the Parent		4,589,019	3,910,204
Non-controlling interest	26	76,883	91,952
Basic and diluted earnings per 100 share on profit for the year	25	1.8356	1.5641

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules.

The notes on pages 7 to 90 are an integral part of these consolidated financial statements.

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

	Notes	31 December 2018	31 December 2017
Profit for the period		**4,665,902**	**4,002,156**
Other comprehensive income			
Items that will not be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		(13,758)	29,495
Revaluation of property, plant and equipment		182,739	7,059
Other accumulated comprehensive income that will not be reclassified in profit or loss		(440)	3,859
Related tax	24	(48,995)	(7,062)
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences		138,491	1,531
Net change in fair value of financial assets at fair value through other comprehensive income (available for sale financial assets)		313,654	146,265
Fair value differences of financial assets at fair value through other comprehensive income (available for sale financial assets)		(21,481)	(42,623)
Other items		(6,980)	(8,782)
Income tax related to items that will be reclassified subsequently to profit or loss	24	(84,737)	(19,278)
Other comprehensive income for the year, net of income tax		**458,493**	**110,464**
Total comprehensive income for the year		**5,124,395**	**4,112,620**
Total comprehensive income attributable to:			
Owners of the Parent		5,013,783	4,001,751
Non-controlling interest		110,612	110,869

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules.

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

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

	Attributable to Owners of the Parent									
			Revaluation Surplus							
	Share Capital	Share premium	Fair value reserves	Revaluation Fund	Currency translation reserve	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2018	**3,300,146**	**721,901**	**(78,147)**	**676,380**	**199,354**	**1,717,878**	**17,007,392**	**23,544,904**	**805,860**	**24,350,764**
First time adoption impact of IFRS, net	-	-	**161,636**	-	-	-	**85,075**	**246,711**	-	**246,711**
Profit for the Period	-	-	-	-	-	-	**4,589,019**	**4,589,019**	**76,883**	**4,665,902**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(11,223)	**(11,223)**	217	**(11,006)**
Change in revaluation surplus	-	-	-	119,538	-	-		**119,538**	11,366	**130,904**
Foreign currency translation differences	-	-	-	-	90,038	-	-	**90,038**	20,755	**110,793**
Net change in fair value of financial assets at fair value through other comprehensive income (available for sale financial assets), net of tax	-	-	249,350	-	-	-	-	**249,350**	1,573	**250,923**
Fair value differences of financial assets at fair value through other comprehensive income (available for sale financial assets), net of tax	-	-	(17,185)	-	-	-	-	**(17,185)**	-	**(17,185)**
Other items	-	7	-	-	-	-	(5,761)	**(5,754)**	(182)	**(5,936)**
Total other comprehensive income	-	**7**	**232,165**	**119,538**	**90,038**	-	**(16,984)**	**424,764**	**33,729**	**458,493**
Total comprehensive income for the period	-	**7**	**232,165**	**119,538**	**90,038**	-	**4,572,035**	**5,013,783**	**110,612**	**5,124,395**
Transfer to reserves	-	-	-	-	-	380,573	(381,676)	**(1,103)**	1,103	-
Dividends paid	-	-	-	-	-	-	(125,000)	**(125,000)**	(11,188)	**(136,188)**
Other items	-	-	-	-	-	-	(75,011)	**(75,011)**	(20,823)	**(95,834)**
Total contributions by and distributions to owners of the parent, recognized directly in equity	-	-	-	-	-	**380,573**	**(581,687)**	**(201,114)**	**(30,908)**	**(232,022)**
Balances at 31 December 2018	**3,300,146**	**721,908**	**315,654**	**795,918**	**289,392**	**2,098,451**	**21,082,815**	**28,604,284**	**885,564**	**29,489,848**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Attributable to Owners of the Parent									
			Revaluation Surplus							
	Share Capital	Share premium	Fair value reserves	Revaluation Fund	Currency translation reserve	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2017	**3,300,146**	**724,352**	**(160,481)**	**676,238**	**210,306**	**1,444,580**	**13,419,948**	**19,615,089**	**707,663**	**20,322,752**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**3,910,204**	**3,910,204**	**91,952**	**4,002,156**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Re-measurements of defined benefit plans	-	-	-	-	-	-	23,846	23,846	(250)	23,596
Change in revaluation surplus	-	-	-	142	-	-	-	142	6,526	6,668
Foreign currency translation differences	-	-	-	-	(10,952)	-	116	(10,836)	12,061	1,225
Net change in fair value of available for sale financial assets, net of tax	-	-	116,432	-	-	-	-	116,432	580	117,012
Fair value differences of available for sale financial assets transferred to profit or loss	-	-	(34,098)	-	-	-	-	(34,098)	-	(34,098)
Other items	-	(2,451)	-	-	-	-	(1,488)	(3,939)	-	(3,939)
Total other comprehensive income	**-**	**(2,451)**	**82,334**	**142**	**(10,952)**	**-**	**22,474**	**91,547**	**18,917**	**110,464**
Total comprehensive income for the period	**-**	**(2,451)**	**82,334**	**142**	**(10,952)**	**-**	**3,932,678**	**4,001,751**	**110,869**	**4,112,620**
Transfer to reserves	-	-	-	-	-	273,298	(273,298)	-	-	-
Dividends paid	-	-	-	-	-	-	(148,106)	(148,106)	(8,563)	(156,669)
Other items	-	-	-	-	-	-	76,170	76,170	(4,109)	72,061
Total contributions by and distributions to owners of the parent, recognized directly in equity	**-**	**-**	**-**	**-**	**-**	**273,298**	**(345,234)**	**(71,936)**	**(12,672)**	**(84,608)**
Balances at 31 December 2017	**3,300,146**	**721,901**	**(78,147)**	**676,380**	**199,354**	**1,717,878**	**17,007,392**	**23,544,904**	**805,860**	**24,350,764**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules.

The notes on pages 7 to 90 are an integral part of these consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
Profit for the year		4,665,902	4,002,156
Adjustments for:			
Income tax expense	24	844,827	1,047,128
Provision for incurred loan losses, net of recoveries		5,040,681	1,191,126
Depreciation and amortization	14	203,704	187,389
Provision for short term employee benefits		143,059	2,818
Provision for retirement pay liability and unused vacations		374,453	245,244
Unearned premium reserve	28	218,775	191,758
Change in provision for outstanding claims	31	38,117	65,646
Derivative financial instruments		(1,095,426)	(312,581)
Other provision expenses	31	62,228	98,164
Net interest income		(16,252,458)	(8,957,263)
Share of profit of equity-accounted investees		(55,846)	(49,157)
Currency translation differences		(90,038)	(10,952)
Other non-cash adjustments		(724,534)	(733,921)
		(6,626,556)	**(3,032,445)**
Loans and advances to banks		(1,239,504)	(496,384)
Reserve deposits		4,265,759	(5,873,579)
Financial assets at fair value through profit or loss		(24,851)	(277,066)
Loans and advances to customers		(42,556,354)	(37,510,856)
Other assets		(6,708,665)	2,482,010
Deposits from banks		(2,965,941)	16,959,686
Deposits from customers		26,551,527	25,939,133
Obligation under repurchase agreements		6,615,195	(1,308,514)
Other liabilities and provisions		2,881,353	3,151,722
		(13,181,481)	**3,066,152**
Interest received		34,960,693	22,020,745
Interest paid		(23,511,072)	(12,585,192)
Taxes paid		(674,466)	(485,795)
Cash (used in)/provided by operating activities		**(9,032,882)**	**8,983,465**
Cash flows from investing activities:			
Dividends received	29	18,340	21,272
Acquisition of property and equipment		(847,637)	(171,218)
Proceeds from the sale of property and equipment		199,543	41,715
Acquisition of intangible assets		(70,091)	(63,258)
Proceeds from the sale of intangible assets		217	3,631
Acquisition of investment securities		(20,548,410)	(9,908,950)
Proceeds from sale of investment securities		5,351,274	6,837,479
Cash used in by investing activities		**(15,896,764)**	**(3,239,329)**
Cash flows from financing activities:			
Proceeds from issue of debt securities and subordinated debts		21,506,800	22,011,992
Repayments of debt securities and subordinated debts		(11,672,797)	(10,831,784)
Proceeds from share capital increase		-	-
Repayments of funds borrowed		(11,208,802)	(12,032,873)
Proceeds from funds borrowed		25,039,333	11,115,522
Dividends paid		(125,000)	(148,106)
Cash provided by financing activities		**23,539,534**	**10,114,751**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		256,824	(137,492)
Net (decrease)/ increase in cash and cash equivalents		**(1,133,288)**	**15,721,395**
Cash and cash equivalents at the beginning of the year	7	22,012,140	6,290,745
Cash and cash equivalents at the end of the year	**7**	**20,878,852**	**22,012,140**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules.

The notes on pages 7 to 90 are an integral part of these consolidated financial statements

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

1. GENERAL INFORMATION

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı (“The Bank” or “The Parent”) was established under the authorization of special law numbered 6219, called “The Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı”, on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations of Turkish Republic (The General Directorate of the Foundations). Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed,
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 948 domestic branches and 3 foreign branches in New York, Bahrain and Iraq, in total 951 branches (31 December 2017: 924 domestic, 3 foreign, in total 927 branches). As at 31 December 2018, the Bank has 16,767 (31 December 2017: 16,097) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank’s head office is located at Saray Mahallesi, Dr.Adnan Büyükdeniz Caddesi, No: 7/A-B, Ümraniye - İstanbul.

The shareholder holding control over the Parent Bank is the registered foundations represented by the General Directorate of the Foundations having 58.45% of the Parent Bank’s outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Parent Bank. The shares of the Bank are quoted to Borsa İstanbul AŞ (“BIST”) and traded publicly.

As at 31 December 2018 and 2017 The Bank’s paid-in capital amounted to TL 2,500,000 divided into 250,000,000,000 shares with a nominal value of 1 Kuruş each (TL 1 equals Kuruş 100).

As at 31 December 2018 the Bank’s shareholders’ structure is as follows:

Shareholders	**Number of the shares (100 units)**	**Nominal amount**	**Share (%)**
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,224,785	386,225	15.45
Other appendant foundations (Group B)	2,673,619	2,674	0.11
Other registered foundations (Group B)	1,448,543	1,448	0.06
Other real persons and legal entities (Group C)	1,527,393	1,528	0.06
Publicly traded (Group D)	630,514,354	630,514	25.22
Paid-in capital	**2,500,000,000**	**2,500,000**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**3,300,146**	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, “Financial reporting in hyper-inflationary economies” until 1 January 2006.

1. GENERAL INFORMATION (Continued)

These consolidated financial statements were approved for issue on 10 July 2019.

The changes in the ownership structure of the Parent Bank are arranged by the provisional article of Law No.696, paragraph 6, published in the Official Gazette dated December 24, 2017 numbered 6219, while the other provisions of the Law no 6219 are arranged by the 7th and 12th paragraphs of the mentioned provisional article of Law.

It is stated in the 6th paragraph of the 2nd sub-article of the related article that “In the act of the application to the Bank within the seven days after the effective date of the cabinet decree, by the shareholders of the stocks that are managed and represented by the General Directorate of Foundations, with the exception of that are owned by the appendant foundations among the Group A and Group B stocks of the Bank, the stocks are transferred to the Undersecretariat of Treasury, by taking their per share value into consideration, over the calculated average value of the values that are mentioned in the conclusion sections of the valuation projects that are prepared by three different firms. The absolute amount of the stocks are recorded in the share ledger on behalf of the Undersecretariat of Treasury within the seven days after the effective date of the cabinet decree.

It is stated in the 6th paragraph of the 3rd sub-article of the related article that “In the act of the application to the Bank within the hundred and twenty days after the effective date of the cabinet decree, by the shareholders of the stocks that are owned by the Vakıfbank Officer and Retainers Retirement and Health Care Foundation (Fund), among the Group C stocks of the Bank, the dependent minister of the Undersecretariat of Treasury has the authority to transfer the stocks over their per share value, that is stated the for the fund, by the Council of Ministers to the Undersecretariat of Treasury.

It is stated in the 6th paragraph of the 4th sub-article of the related article that “In the act of the application to the Bank within the hundred and twenty days after the effective date of the cabinet decree, by the shareholders of the stocks that are owned by the appendant foundations among the Group B stocks of the Bank, and the stocks that are owned by the other natural and legal persons among the Group C stocks of the Bank, the dependent minister of the Undersecretariat of Treasury has the authority to transfer the stocks over their per share value, that is stated the for the fund, by the Council of Ministers.

It is stated in the 6th paragraph of the 5th sub-article of the related article that “The stocks that are transferred to the Treasury, are represented and managed by the dependent Minister of the Undersecretariat of Treasury”.

With the mentioned provisional article, the ownership of the stocks which are represented and managed by the T.C. General Directorate for Foundations will be transferred to the Republic of Turkey Ministry of Treasury and Finance.

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

1. GENERAL INFORMATION (Continued)

The table below sets out the subsidiaries and associates and shows their shareholding structure as at 31 December 2018 and 31 December 2017.

31 December 2018	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Güneş Sigorta A.Ş.	48.02	48.02
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	18.47	30.12
Vakıf Emeklilik ve Hayat A.Ş.	53.90	79.68
Vakıf Enerji ve Madencilik A.Ş.	65.50	82.60
Taksim Otelcilik A.Ş.	51.00	51.69
Vakıf Faktoring A.Ş.	78.39	87.49
Vakıf Finansal Kiralama A.Ş.	58.71	66.23
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.54
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	38.70	39.54
World Vakıf UBB Ltd in Liquidation (**)	82.00	85.32
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

31 December 2017	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Güneş Sigorta A.Ş.	48.02	48.02
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	22.89	34.55
Vakıf Emeklilik ve Hayat A.Ş.	53.90	79.67
Vakıf Enerji ve Madencilik A.Ş.	65.50	85.52
Taksim Otelcilik A.Ş.	51.00	51.69
Vakıf Faktoring A.Ş.	78.39	88.68
Vakıf Finansal Kiralama A.Ş.	58.71	66.23
Vakıf Yatırım Menkul Değerler A.Ş.	99.00	99.48
Vakıf Portföy Yönetimi A.Ş. (***)	100.00	100.00
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	38.70	40.86
World Vakıf UBB Ltd in Liquidation (**)	82.00	85.32
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to power over relevant activities - acquired through arrangements between shareholders or articles of association of the related subsidiary - and to variable returns from its involvement with the subsidiary while the bank has the ability to affect those returns through its power over the subsidiary.

(**) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as "World Vakıf UBB Ltd. in Liquidation". Therefore, the financial statements of the subsidiary have not been consolidated as at 31 December 2018 and 31 December 2017.

(***) With the decision of the Board of Directors dated December 13, 2018, the Parent Bank decided to sell all its shares with 100% ownership in its subsidiary Vakıf Portföy Yönetimi AŞ with a paid in capital of TL 24,000 to Ziraat Portföy Yönetimi AŞ for TL 52,500. Vakıf Portföy Yönetimi AŞ, which is one of the subsidiaries of the Parent Bank, was removed from Subsidiaries account and started to be tracked under Non-current Assets Held for Sale and Discontinued Operations account. The said transfer of Vakıf Portföy Yönetimi AŞ was concluded on January 2, 2019.

1. GENERAL INFORMATION (Continued)

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

Güneş Sigorta AŞ was established under the leadership of the Bank and Soil Products Office in 1957. The subsidiary provides nearly all non-life insurance products, including fire, accident, transaction, engineering, agriculture, health, forensic protection and loan insurance. Its head office is in Istanbul.

Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ was established in 1991 in Istanbul. The main activity of the subsidiary is to invest in a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Vakıf Emeklilik ve Hayat AŞ was established under the name Güneş Hayat Sigorta AŞ in 1991. In 2003 the subsidiary has taken conversion permission from the related regulatory body and started to operate both in pension business. Its head office is in Istanbul.

Vakıf Enerji ve Madencilik A.Ş. was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

Taksim Otelcilik AŞ was established under the Turkish Commercial Code in 1966. The main activity of the subsidiary is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

Vakıf Faktoring AŞ was established in 1998 to perform factoring transactions. Its head office is in Istanbul.

Vakıf Finansal Kiralama AŞ was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler AŞ was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

Vakıf Portföy Yönetimi AŞ operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul. Vakıf Portföy Yönetimi AŞ was classified from the Subsidiaries account to under Assets classified as held for sale and it has been included to consolidation on held for sale transactions accounts.

Vakıfbank International AG was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna, Austria.

Vakıf Gayrimenkul Yatırım Ortaklığı AŞ was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The subsidiary's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in İstanbul.

The Bank has also the following associates:

Kıbrıs Vakıflar Bankası Ltd. Şti. was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Türkiye Sınai Kalkınma Bankası AŞ was established as an investment bank in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

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

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira ("TL"). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements.

In preparation of the consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the prior year consolidated financial statements except for the adoption of new standards and interpretations as of 1 January 2018, where applicable, noted below:

2.2. New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2018:

- **IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- **IFRS 15, 'Revenue from contracts with customers';** effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. IFRS 15 has no significant impact on the Bank's accounting policies, financial position and performance.

- **Amendment to IFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendments to IFRS 4, 'Insurance contracts'** regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

a) Standards, amendments and interpretations applicable as at 31 December 2018(Continued):

- **Amendment to IAS 40, 'Investment property'** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- **Amendments to IFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

  - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
  - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

- **IFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b) ***Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:***

- **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- **Amendment to IAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

- **IFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2018 (Continued):

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Classification, measurement and presentation of leases:

The lease obligation is classified as gross basis in the way that equals to the total of all cash payments under the contract and netted off with the interest expense arising from the contract. The right of use arising from the leasing transactions is capitalized at commencement date of a lease by measuring the present value of the lease payments that have not been paid at the date. The lease payments is discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, incremental borrowing rate obtained is used.

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the prior year to first adoption. For the lessors the accounting treatment will be almost the same with the current applications.

- **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

    - IFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
    - IFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
    - IAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.
    - IAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2018 (Continued):

- **Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

  - use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

  i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
  ii) clarify the explanation of the definition of material; and
  iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The new standards, amendments and interpretations which will be effective after 1 January 2019 are not expected to have a material impact on the Group's consolidated financial statements, except IFRS 16 as explained in 2.b.

2.3. Accounting Policies, Judgements and Estimates

Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 - Financial Reporting in Hyperinflationary Economies as at 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

Functional and Presentation Currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except if indicated, financial information presented in TL has been rounded to the nearest thousand.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS, including International Accounting Standards ("IAS") requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the statement of income 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Impairment of Financial Assets

As of 1 January 2018, a loss allowance for expected credit losses is provided for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, all financial assets, which are not measured at fair value through profit or loss, loan commitments and financial guarantee contracts in accordance with IFRS 9 principles. Equity instruments are not subject to impairment assessment as they are measured at fair value.

The Group has changed its credit calculation method with the expected credit loss model as of 1 January 2018. Expected credit loss estimates are required to be unbiased, probability-weighted, considering the time value of money and including supportable information about past events, current conditions, and forecasts of future economic conditions. The financial assets is divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

Financial assets that do not have a significant increase in the credit risk at the first time they are received in the financial statements or after the first time they are taken to the financial statements. For these assets, credit risk impairment provision is accounted for 12 months expected credit losses. The Parent Bank applies the expected 12-month default probabilities to the estimated default amount and multiplies with the loss given default and downgrades to the present day with the original effective interest rate of the loan. For these assets, an expected 12-month credit loss is recognized and interest income is calculated over the gross carrying amount. 12-month expected credit loss is the loss arising from possible risks in the first 12 months following the reporting date.

Stage 2:

A financial asset is transferred to stage 2 in the event that there is a significant increase in the credit risk after the first time the financial asset is taken in the financial statements. The Parent Bank determines the credit risk impairment provision of the financial asset according to lifetime expected credit loss. Lifetime expected credit losses are credit losses arising from all events that may occur during the expected life of the financial asset. The probability of default, and loss given default are estimated over the life of the loan including the use of multiple scenarios. Expected cash flows are discounted using the original effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Impairment of Financial Assets (Continued)

Stage 3:

Stage 3 includes financial assets with objective evidence of impairment as of the reporting date. Lifetime expected credit loss is recorded for these assets. The Parent Bank's methodology for loans at this stage is similar to loans classified in Stage 2, but the probability of default is considered 100%. Loss given default is calculated considering the period the loan waits in the non-performing loans and an aging curve formed from the historical data.

Significant Increase in Credit Risk

The Standard requires the assessment of whether there is a significant increase in the credit risk of financial assets by the date of initial recognition based on the information available without excessive effort and cost as of the reporting date. The factors that show a significant increase in credit risk under IFRS 9 are as follows:

- Past Due Date; significant increase in the credit risk since the granting date in the case of loans overdue more than 30 days.

- Restruction: Classification of financial assets under the stage2 as a result of the emergence of privileges and financial difficulties in the case of restructuring of financial receivables.

Qualitative Criteria: Implementation of set of qualitative criteria set by The Parent Bank in accordance with the information obtained.

Quantitative Criteria: As of the reporting date, the default risk for the borrower and the default risk as of the date of the initial allowance are compared with the change in the grade / score information as a result of the application of statistically determined threshold values.

The Parent Bank has accounted for the effect of applying the new provisions at the date of January 1, 2018 by recording a reversal in the opening records of previous years' profit and loss accounts. The primary impact is due to changes in the allowance for credit losses in accordance with the new impairment provisions and the tax effects of the corresponding provisions.

Default Definition

The Parent Bank takes into account the requirements of IFRS 9 and the relevant BRSA in order to determine the default situation in accordance with the definition of default and its indicators included in the Communiqué on the Calculation of Provisions Regulation and the Amount Based on the Internal Risk Based Approach of the Credit Risk.

In terms of the default definition, the bank has set the following criterias;

- Over 90 days delayed collection of principal and / or interest amount,
- The customer has been bankrupt or has been found to apply for bankruptcy,
- The customer's creditworthiness is impaired,
- It is decided that the principal and / or interest payments of the borrower will be delayed by more than 90 days since the collaterals and / or borrower's own funds are insufficient to cover the payment of the receivables at maturity,
- It is decided that the principal and / or interest payments of the customer will be delayed by more than 90 days due to macroeconomic, sector specific or customer specific reasons.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Impairment of Financial Assets (Continued)

Expected Credit Loss (ECL) Calculation

Expected credit loss calculation refers to the calculation to estimate the loss of the financial instrument in case of default and it is based on 3-stage impairment model based on the change in credit quality. It is possible to perform the expected credit loss calculations in accordance with IFRS 9, with three main parameters for each loan. Exposure at Default (EAD), Loss Given Default (LGD), Probability of Default (PD).

Exposure at Default (EAD): Represents the amount of risk on the default date of the borrower in case of default. According to IFRS 9 in calculating EAD, the estimation of how customer risk rating changes over time is important. Amount of EAD for cash and non-cash loans are calculated in different ways.

Cash loans are divided into two parts as loans with payment plan and loans without payment plan. For loans with payment plan, EAD is calculated by considering the installments to be paid in the future. For cash loans without payment plan, EAD is calculated by keeping credit balance constant. For non-cash loans and limit commitments EAD is calculated by regarding to credit conversion factor and behavioral maturity periods.

Loss Given Default (LGD): The ratio that provides the uncollectable amount of the loans in the process after the default. The LGD ratio is the division of the uncollectable amount of a defaulted loan into the defaulted loan amount. This ratio enables to predetermine the risks in the case of default for the active credit portfolio and allows for provision under IFRS 9. In LGD methodology, all non-performing loans amounts and long term collection process has been taken into account and LGD rate is calculated after deducting net collections amounts from the default amount and discounted with effective interest rates or approximate rate over the net amounts with an approximate value.

For corporate and retail portfolios, different LGD calculations are performed. Since the dragging effect, LGD rates in corporate portfolios are considered on customer basis. For retail portfolios, LGD rates are considered on credit basis. In order to differentiate variable risk characteristics in accordance with IFRS 9, individual and corporate segments are divided into its own LGD ratios according to different risk factors.

Probability of Default (PD): Represents the probability of default of the debtor in a defined time lag in the future.

The models used in PD calculations were developed based on historical data on past and quarterly and non-defaultable loans. PD rates used within the scope of IFRS 9 are calculated separately for each rating model and rating information. In this context, firstly, PD rates are calculated from historical data(through the cycle) from this model and rating values, then lifetime default rate curves are created. These lifetime default rate curves provide the following two basic estimation data in the calculation of expected credit losses as follows:

- 12 Months PD ratio: The probability of default within 12 months from the reporting date estimate
- Lifetime PD ratio: Estimation of the probability of default over the expected life of the financial instrument

The models developed under IFRS 9 have detailed segment structures based on corporate and retail portfolios.

While creating the corporate PD rates, the rating values assigned to the customers as of the date of each rating and the customers who default on the corporate side are considered. Retail portfolios are divided into sub-segments according to product groups and lifetime default rate curves vary according to product groups. By taking into account the periodic PD rates, a PD rate scale is generated on the basis of rating and model code through the cycle.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Impairment of Financial Assets (Continued)

Expected Credit Loss (ECL) Calculation (Continued)

The relation of all risk parameters with macroeconomic conditions has been tested and it has been determined that macroeconomic conditions have an effect on the probability of default. In this context, macroeconomic forecasts are taken into account in changing the probability of default.

Different macroeconomic models have been created for the retail portfolio and commercial portfolio, and macroeconomic forecasts affect the expected loss provision calculations in two separate scenarios, base and bad. The future macroeconomic expectations taken into account into IFRS 9 are in line with the Bank's current budget and ISEDES forecasts.

The Parent Bank reviews and assesses the validity of the risk parameter estimates used in the calculation of expected credit losses within the framework of model verification processes at least twice a year. In this context, models for individual credit card and overdraft accounts were updated in the reporting period.

Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect changes in economic conjuncture and are updated if needed. In the expected credit loss calculations carried out for year-end, macroeconomic information is taken into account under multiple scenarios.

The maximum period to determine the expected credit losses except for demand and revolving loans is up to the contractual life of the financial asset.

Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in (i) - *Measurement*.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, 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 where 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 includes inputs not based on observable data and the unobservable inputs 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 the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Fair value (Continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm’s length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Significant accounting policies are as follows;

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the subsidiaries.

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Bank exercises significant influence, but not control are accounted for using the equity method.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group’s share of net assets of an associate are recognized as follows: (i) the Group’s share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group’s share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries’ interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents functional currency of the group’s entities except for World Vakıf UBB Ltd. in Liquidation and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates ruling at the end of reporting period with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. In Liquidation and Vakıfbank International AG, are US Dollar and Euro, respectively, and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

- The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the end of the respective reporting period.
- The income and expenses of foreign operations are translated to TL using average exchange rates.
- Foreign currency differences arising from the translation of the financial statements of the foreign operations into TL for consolidation purpose are recognized in other comprehensive income and accumulated in the foreign currency translation reserve (“translation reserve”). Where a foreign operation is disposed of, in part or full, the full amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(c) Interest

Interest income and expense are recognized in the consolidated profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Interest income and expense presented in the consolidated statement of profit or loss and other comprehensive income include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis,
- interest on financial assets at fair value through other comprehensive income on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business (see also accounting policy *(s)*) are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Net trading income

Net trading income includes gains and losses arising from revaluation and disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, and gains and losses on derivative financial instruments held for trading purpose.

(f) Dividends

Dividend income is recognized when the right to receive the income is established. Dividends are reflected as a component of other operating income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(g) Leases

The Group as the lessee

Operating leases

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

Finance leases

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

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

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

The Group as the lessor

Finance leases

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

(h) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Corporate tax

Turkey

Statutory income is subject to corporate tax at 22.0% (portfolio that is up to 3 years, corporate tax is applied at 22% ; portfolio which is longer than 3 years, it is applied at %20). This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(h) Income taxes (Continued)

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

75% of the profit from sales of associate shares that held at least 2 years and 50% of the profit from sales of real estates are exceptional from corporate taxes if there is a capital increase according to Corporate Tax Law or it is hold for 5 years on a special fund account.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open to inspection for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue assessments based on their findings.

Foreign subsidiary

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

Deferred taxes

Deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities outside a business combination which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to set off current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities related to same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(h) Income taxes (Continued)

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue tax assessments based on their findings.

Investment incentives

As per the provisional Article no. 69, effective from 1 January 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated 8 April 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on 31 December 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at 31 December 2008.

In accordance with the decision taken by the Turkish Constitutional Court on 15 October 2009, the "2006, 2007 and 2008." clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the 8 January 2010 Official Gazette number 27456. Accordingly, the Group's subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per "Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws" accepted on 23 July 2010 at the Grand National Assembly of Turkey, the expression of "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date" has been amended as "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date" and the following expression of " Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate" has been added. This Law has been published in the Official Gazette on 1 August 2010.

The clause "The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income" which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the 9 February 2012 dated decisions no: E.2010/93 and K.2012/20.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(i) Financial Assets

Recognition

The Group initially recognizes financial assets and liabilities which are originated. Regular way purchases and sales of financial assets are recognized on the settlement date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

The Group classifies its financial assets in the following categories: "Financial Assets at Fair Value Through Profit or Loss"; "Financial Assets Measured at Fair Value Through Other Comprehensive Income" or "Financial Assets Measured at Amortised Cost". The financial assets are recognized or derecognized in accordance with the "Recognition and Derecognition" principles defined in Section 3 related to the classification and measurement of financial instruments of the "IFRS 9 Financial Instruments" standard. At initial recognition, financial assets are measured at fair value. In the case of financial assets are not measured at fair value through profit or loss, transaction costs are added or deducted to/from their fair value.

The Group recognizes a financial asset in the financial statement when, and only when, the Group becomes a party to the contractual provisions of the instrument. When the Group first recognizes a financial asset, the business model and the characteristics of contractual cash flows of the financial asset are considered by management.

Financial Assets at Fair Value Through Profit or Loss

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

Equity securities classified as financial assets at fair value through profit/loss are recognized at fair value.

Financial Assets at Fair Value Through Other Comprehensive Income

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial assets with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(i) Financial Assets (Continued)

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

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

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

Financial Assets Measured at Amortized Cost

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

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

Both "Fair value through other comprehensive income" and "measured at amortized cost" securities portfolio of the Group include Consumer Price Indexed (CPI) Bonds. These securities are valued and accounted using the effective interest rate method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. The reference indices used in calculating the actual coupon payment amounts of these assets are based on the Consumer Price Index (CPI) of prior two months. The Bank also sets the estimated inflation rate accordingly. The estimated inflation rate used is updated as needed within the year. At the end of the year real interest rate is used.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognized in the Group's financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(i) Financial Assets (Continued)

Measurement

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all financial assets at fair value through other comprehensive income are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and financial assets at amortised cost are measured at amortized cost less impairment losses. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

De-recognition

A financial asset is derecognized when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on de-recognition.

Financial assets at amortised cost are derecognized on the date they are transferred by the Group.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(i) Financial Assets (Continued)

Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group’s trading activity.

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than three months.

Loans and advances to banks and customers: Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Finance lease receivables: Leases where substantially all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest method. Finance lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortized cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits, funds borrowed, debt securities issued and subordinated debts: Deposits, funds borrowed, debt securities issued and subordinated debts are the Group’s sources of debt funding. Deposits, funds borrowed, debt securities issued and subordinated debts are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortized cost using the effective interest method.

(j) Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements. Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in “interest income” or “interest expense”.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(k) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. The Group pursues only the properties for use according to their fair values in terms of separating the land and buildings within the context of IAS 16. As a result of the valuation by the independent appraisal company, revaluation difference of TL 795,918 after deferred tax effect is followed as the revaluation surplus under shareholder’s equity as at December 31, 2018 (December 31, 2017: TL 676,380).

Gains/losses arising from the disposal of the property and equipment are recognized in profit or loss and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense unless they extend the economic useful life of related asset.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods. Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	Estimated useful lives (years)	Depreciation Rates (%)
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Vehicles obtained through finance leases	4-5	20-25

(l) Intangible assets

The Group’s intangible assets consist of software programs. Intangible assets are recorded at cost. The costs of the intangible assets purchased before 31 December 2005 are restated for the effects of inflation from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortization rates applied are between 33.33% and 6.67%.

(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(o) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependents will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan ("the Plan") under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	7.5	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008.

Pension and medical benefits transferable to SSF:

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 ("Banking Law") as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However they said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(o) Employee benefits (Continued)

Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account.

On 17 April 2008, the New Law was accepted by the Turkish Parliament and was enacted on 8 May 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years. Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the "Social Insurance and General Health Insurance Law no. 5510" published on the Official Gazette no. 28227 dated 8 March 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated 30 April 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 numbered 29335. "Council of Ministers" expression in "Council of Ministers is authorized to determine the date of transfer to the Social Security Institution" stated in provisional article 20 of Social Insurance and Universal Health Insurance Law No. 5510 is replaced with the "President" pursuant to the paragraph (I) of Article 203 of Statutory Decree No. 703 promulgated in repeated Official Gazette No. 30473, dated 09 July 2018.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial valuation:

The technical financial statements of the Fund are audited by the certified actuary according to the "Actuaries Regulation" which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated January 2019, there is no technical or actual deficit determined which requires provision against.

Transferable Retirement and Health Liabilities:	**31 December 2018**	**31 December 2017**
Net Present Value of Transferable Retirement Liabilities	(6,942,347)	(5,495,589)
Net Present Value of Transferable Retirement and Health Contributions	5,148,673	4,317,510
General Administration Expenses	(69,423)	(99,503)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(1,863,097)	(1,277,583)
Fair Value of Plan Assets (2)	5,029,717	5,360,551
Asset Surplus over Transferrable Benefits ((2)-(1)=(3))	3,166,620	4,082,968

Actuarial assumptions used in valuation of Non Transferable Benefits based on IAS 19 are as follows:

Discount Rates	**31 December 2018**	**31 December 2017**
Benefits Transferable to SSF	9.80%	9.80%
Non Transferable Benefits	2.50%	2.50%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(o) Employee benefits (Continued)

Distribution of total assets of the Retirement Fund as of 31 December 2018 and 31 December 2017 is presented below:

	31 December 2018	31 December 2017
Bank placements	2,453,589	2,290,956
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	659,361	362,512
Tangible assets (*)	1,723,955	2,517,925
Other	192,812	189,158
Total	**5,029,717**	**5,360,551**

(*) The tangible assets value indicates all the stocks' and real estate properties' market values, as of December 31, 2018.

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

(p) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

(q) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

(r) Insurance business

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(r) Insurance business (Continued)

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognized as revenue, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are net of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

Premium received for an investment contract, is not recognized as revenue. Premiums for such contracts are recognized directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends ("Actuarial Chain Ladder Method"). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Receivables from reinsurance activities: In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. There receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

Subrogation, salvage and quasi income: The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(r) Insurance business (Continued)

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Ministry of Treasury and Finance, which are applicable for all Turkish insurance companies. Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognized directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortized on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortized on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

(s) Individual pension business

Individual pension system receivables presented under ‘other assets’ in the accompanying consolidated financial statements consists of ‘receivable from pension investment funds for investment management fees’, ‘entrance fee receivable from participants’ and ‘receivables from the clearing house on behalf of the participants’. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated profit or loss and other comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants’ contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years ‘staying period’. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognize the entrance fee as revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(t) Earnings per share

Basic earnings per share from continuing operations disclosed in the accompanying consolidated profit or loss and other comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There are no potentially dilutive instruments. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

(u) Subsequent events

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

(v) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

2.4. Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

2.5. New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

IFRS 15 revenue from contracts with customers standard ("IFRS 15"), effective starting from 1 January 2018, replaces IAS 18 Revenue ("IAS 18") standard. IFRS 15 has no significant impact on the Bank's accounting policies, financial position and performance.

The impact of the adoption of IFRS 9 standard and the new accounting policies are disclosed below in Notes 3 and 2 respectively. The other standards did not have any impact on the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Explanations on Prior Period Accounting Policies not Valid for the Current Period

IFRS 9 Financial Instruments" standard came into effect instead of "IAS 39 Financial Instruments: Recognition and Measurement" as of January 1, 2018. Accounting policies lost their validity with the transition of IFRS 9 are given below:

According to IAS 39 - Financial Instruments: Recognition and Measurement, financial assets are classified in four categories; as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and loans and receivables.

Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists for as particular asset or a group of assets, then that asset’s recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses in respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Gains and losses on subsequent measurement

Gains and losses arising on investment held for trading are recognized in profit and loss.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognized as other comprehensive income in the fair value reserve for available-for-sale financial assets. When the financial assets are sold, collected or otherwise disposed of, the related cumulative gain or loss recognized in the other comprehensive income is transferred to profit or loss. Interest earned whilst holding available-for-sale financial assets, held-to-maturity securities and financial assets at fair value through profit or loss is reported as interest income in the consolidated statement of comprehensive income.

Classification

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are trading financial assets acquired principally with the intention of disposal within a short period for the purpose of short-term profit making and derivative financial instruments. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss under other liabilities and provisions.

Available-for-sale financial assets

Available-for-sale financial assets are the financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale financial assets mainly include certain debt securities issued by the Turkish Government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Explanations on Prior Period Accounting Policies not Valid for the Current Period (Continued)

Held to maturity investments

Held-to-maturity investment securities are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. These include certain debt securities.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognized in the Group's financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Impairment of financial assets

Assets carried at amortized cost

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
(c) the Group is granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

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

All loans with principal and/or interest overdue for more than 90 days are considered as non- performing.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured considering the amount that could be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Explanations on Prior Period Accounting Policies not Valid for the Current Period (Continued)

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount.

Assets carried at fair value

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive income to profit or loss.

Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note impairment of financial assets.

The specific 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 judgments about a debtor's financial situation and the net realizable value of any underlying collateral.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

Collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or for small portfolios with insufficient information, a formula approach based on historic loss rate experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Explanations on Prior Period Accounting Policies not Valid for the Current Period (Continued)

The roll rate methodology uses statistical analysis of historical data on delinquency to estimates the amount of loss. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and product mix at the reporting date.

Collective allowance for groups of assets that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Investments in equity securities were evaluated for impairment on the basis described in note *impairment of financial assets*.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market’s assessment of creditworthiness as reflected in the bond yields;
- The rating agencies’ assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

3. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9

IFRS 9 “Financial Instruments", which is effective from 1 January 2018 has been applied in these financial statements. The aim of the standard is to determine the financial reporting principles on financial assets and financial liabilities. The Group has applied the classification, measurement and impairment requirements by adjusting the opening balance sheet and opening equity at 1 January 2018, without restatement of the comparative financial statements.

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting. IFRS 9 permits not to apply the standard's principles on hedge accounting and to continue to apply hedge accounting principles of IAS 39. The Bank continues to comply with all principles of IAS 39 for hedge accounting based on the analyzes made so far.

The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules.

a) Classification and measurement of financial assets

The following table contains the details of the debt instruments which have been reclassified to the amortised cost category and shows the fair value as at 31 December 2018, the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to IFRS 9:

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

3. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

a) Classification and measurement of financial assets (Continued)

	Before IFRS 9		After IFRS 9	
	Basis of Measurement	**Book value**	**Basis of Measurement**	**Book value**
Financial Assets		**31 December 2017**		**1 January 2018**
Cash and due from banks and balances with central banks	Amortised cost	43,478,412	Amortised cost	43,478,412
Loans and advances due from banks	Amortised cost	626,541	Amortised cost	626,541
Securities	Fair value through comprehensive income	14,690,374	Fair value through comprehensive income	7,192,477
	Fair value through profit or loss	130,002	Fair value through profit or loss	173,372
	Amortised cost	16,766,071	Amortised cost	24,422,643
Derivative financial instruments held for trading	Fair value through profit or loss	1,946,251	Fair value through profit or loss	1,946,251
Loans and advances to customers (Net)	Amortised cost	188,336,696	Amortised cost	188,429,100

b) Financial statement confirmation of financial assets at IFRS 9 transition:

	Book Value Before IFRS 9	**Reclassifications**	**Remeasurement**	**Book Value After IFRS 9**
Financial Assets	**31 December 2017**			**1 January 2018**
Financial assets at fair value through other comprehensive income				
Balances before reclassification (available for sale)	14,690,374	-	-	-
Disposal: to financial assets at fair value through P/L	-	(43,370)	-	-
Disposal: to financial assets measured at amortized cost	-	(7,454,527)	-	-
Book value in accordance with IFRS 9	-	-	-	7,192,477
Financial assets at fair value through profit and loss				
Book value in accordance with IAS 39	130,002	-	-	-
Addition: from available for sale portfolio	-	43,370	-	-
Book value in accordance with IFRS 9	-	-	-	173,372
Financial assets at amortised cost				
Balances before reclassification (held to maturity)	16,766,071	-	-	-
Addition: from available for sale portfolio	-	7,454,527	202,045	-
Book value in accordance with IFRS 9	-	-	-	24,422,643

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

3. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

b) Financial statement confirmation of financial assets at IFRS 9 transition (Continued):

In accordance with IFRS 9 classification and measurement requirements, the Bank has performed some reclassifications as above. The reasons of these reclassifications are explained below:

1) Financial assets classified as measured at amortized cost in accordance with IFRS 9 standard:

The Bank reassessed its business model in order to hold the financial assets to collect contractual cash flow or to both collect the contractual cash flows and sell the assets. At the date of initial application of IFRS 9, the Bank assessed the appropriate business model for its debt securities amounting to TL 7,454,527 which were previously classified as available-for-sale and measured at fair value, as to collect the contractual cash flows and measured at amortised cost.

2) Equity securities at fair value through profit or loss in accordance with IFRS 9 standard:

From the date of initial application of IFRS 9, the Bank has classified its equity securities amounting to TL 43,370 as financial assets measured at fair value through profit or loss. These were previously classified as financial assets available-for-sale.

c) Reconciliation of the opening balance of the provisions for impairment at IFRS 9 transition

The following table presents the reconciliation between provisions for impairment of the Bank as of 31 December 2017 and the provision provided for expected credit losses measured in accordance with IFRS 9 expected loss model as of 1 January 2018.

	Book Value before IFRS 9	**Remeasurement**	**Book Value after IFRS 9**
	31 December 2017		**1 January 2018**
Loans and advances to customers (*)	**8,485,066**	**(363,784)**	**8,121,282**
Stage 1	1,847,087	(348,427)	1,498,660
Stage 2	265,099	199,974	465,073
Stage 3	6,372,880	(215,331)	6,157,549
Financial Assets	**30,859**	**55,310**	**86,169**
Guarantees and loan commitments	**292,475**	**216,070**	**508,545**
Stage 1 and Stage 2	137,421	340,068	477,489
Stage 3	155,054	(123,998)	31,056

(*) Factoring and lease receivables are included.

d) Equity impacts of IFRS 9 transition

According to paragraph 15 of Article 7 of IFRS 9 Financial Instruments Standards, it is not compulsory to restate previous period information at initial application of IFRS 9 and if the previous period information is not restated, the differences between the book values of 1 January 2018, the date of initial application, should be reflected in the opening balance of equity. The explanations about the initial application effects of IFRS 9, amounting to TL 246,711 increase, on equity are presented below.

The positive difference amounting to TL 73,924 (net-off tax) between provisions for impairment provided in accordance with IAS 39 and provisions provided for the expected credit losses measured in accordance with the IFRS 9 expected loss model as of 1 January 2018, has been classified under "Retained earnings" in shareholders' equity.

Equity securities followed under available-for-sale financial assets before January 1, 2018, along with its following under financial assets at fair value through profit or loss beginning from IFRS 9's first implementation date, the amount of TL 11,151 impairment provision are classified as prior period's profit/loss under equity.

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

3. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

d) Equity impacts of IFRS 9 transition (Continued)

Remeasurement difference regarding the after tax effect amounting net TL 161,636 has been classified under "Accumulated Other Comprehensive Income or Expense Reclassified through Other Profit or Loss", for the securities amounting TL 7,454,527 classified before January 1, 2018 as available-for-sale financial assets and after fair value through other comprehensive income, has been classified with the IFRS 9 transition as measured at amortized cost.

e) The following table contains the details of the debt instruments which have been reclassified to the amortised cost category and shows the fair value as at 31 December 2018, the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to IFRS 9:

From available for sale (IAS 39 classification)	
Fair value as at 31 December 2018	6,673,300
Fair value gain/(loss) that would have been recognised during the year if the financial asset had not been reclassified	(781,227)

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk,

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively.

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 69 of the Regulation on Internal Systems within the Banks, dated 28 June 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Introduction and overview (Continued)

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of 31 December 2018, consumer loans are excluded from the internal rating system of the Bank. The risks that are subject to rating models can be allocated as follows:

Category	**Share in the Total % (31 December 2018)**	**Share in the Total % (31 December 2017)**
Above average	30.64	40.46
Average	50.18	45.76
Below average	10.28	4.15
Unrated	8.90	9.63
Total	**100.00**	**100.00**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Credit quality per class of financial assets as of 31 December 2018 and 2017 are as follows;

31 December 2018	Stage 1	Stage 2	Stage 3	Total allowance for impairment (Stage 1+2+3)	Total
Cash and balances with central banks (excluding cash on hand)	35,853,645	-	-	(7,526)	35,846,119
Financial assets at fair value through profit or loss	4,638,002	-	-	-	4,638,002
Securities	224,619	-	-	-	224,619
Derivative financial instruments	4,413,383	-	-	-	4,413,383
Financial assets at fair value through equity	11,385,945	-	-	-	11,385,945
Debt Securities	10,795,766	-	-	-	10,795,766
Equity Securities	590,179	-	-	-	590,179
Financial assets at amortised cost	249,169,709	20,564,555	11,129,308	(11,234,250)	269,629,322
Loans and advances to banks	1,873,933	-	-	(945)	1,872,988
Loans and advances to customers	207,315,048	20,564,555	11,129,308	(11,228,640)	227,780,271
- Commercial	150,666,335	18,337,336	8,342,457	(8,556,907)	168,789,221
- Consumer	43,289,478	1,225,674	1,776,853	(1,547,102)	44,744,903
- Credit cards	8,570,846	373,023	808,360	(879,619)	8,872,610
- Lease receivables	2,182,900	598,702	156,147	(185,672)	2,752,077
- Factoring receivables	2,605,489	29,820	45,491	(59,340)	2,621,460
Debt Securities	39,980,728	-	-	(4,665)	39,976,063
Other assets	15,373,023	-	-	(24,047)	15,348,976
Total	**316,420,324**	**20,564,555**	**11,129,308**	**(11,265,823)**	**336,848,364**

31 December 2017	Neither past due nor impaired	Past due or individually impaired, net	Allowance for impairment	Total
Financial assets at fair value through profit or loss	2,076,253	-	-	2,076,253
Loans and advances to banks	626,541	-	-	626,541
Loans and advances to customers	189,046,856	7,943,186	(8,653,346)	188,336,696
Commercial	*80,443,090*	*5,475,019*	*(5,160,111)*	*80,757,998*
Consumer	*42,600,626*	*2,468,167*	*(3,493,235)*	*41,575,558*
Credit Cards	*7,122,855*	-	-	*7,122,855*
Other	*58,880,285*	-	-	*58,880,285*
Investment securities	31,456,445	-	-	31,456,445
Total	**223,206,095**	**7,943,186**	**(8,653,346)**	**222,495,935**

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

Gross maximum exposure	31 December 2018	31 December 2017
Cash and balances with central banks (excluding cash on hand)	35,846,119	41,487,485
Financial assets at fair value through profit or loss	4,638,002	2,076,253
Financial assets at fair value through OCI ("FVOCI")	11,385,945	-
- Debt Securities	*10,795,766*	-
- Equity Securities	*590,179*	-
Financial assets at amortised cost ("AC")	269,629,322	188,963,237
- Loans and advances to banks	*1,872,988*	626,541
- Loans and advances to customers	*227,780,271*	188,336,696
- Debt securities	*39,976,063*	-
Investment securities	-	31,456,445
- Available-for-Sale	-	*14,690,374*
- Held-to-Maturity	-	*16,766,071*
Assets Held For Sale	1,568,113	1,312,493
Other assets	15,348,976	9,237,073
Total	**338,416,477**	**274,532,986**
Financial guarantees	66,003,986	51,073,082
Loan commitments	65,430,821	49,973,919
Total	**131,434,807**	**101,047,001**
Total credit risk exposure	**469,851,284**	**375,579,987**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Sectorial distribution of the performing loans and advances to customers

	31 December 2018		31 December 2017	
	Amount	**%**	**Amount**	**%**
Consumer loans	44,515,152	19.53	42,600,626	22.63
Mortgage loans	19,358,386	8.50	*18,966,522*	*10.08*
General purpose loans	21,173,810	9.29	*20,590,675*	*10.93*
Overdraft checking accounts	3,656,125	1.60	*2,613,797*	*1.39*
Auto loans	323,640	0.14	*429,632*	*0.23*
Other consumer loans	3,191	-	-	-
Manufacturing	52,582,342	23.07	40,923,643	21.74
Wholesale and retail trade	33,059,323	14.51	28,155,555	14.96
Transportation and telecommunication	26,460,693	11.61	14,036,041	7.46
Construction	25,799,135	11.32	24,141,609	12.83
Credit cards	8,943,869	3.92	7,122,855	3.78
Hotel, food and beverage services	8,650,664	3.80	5,873,037	3.12
Financial institutions	4,312,390	1.89	4,206,474	2.23
Agriculture and stockbreeding	1,669,369	0.73	1,209,251	0.64
Health and social services	2,092,283	0.92	1,671,869	0.89
Others	19,794,384	8.70	19,105,896	9.71
Total performing loans and advances to customers	**227,879,604**	**100.00**	**189,046,856**	**100.00**

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

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

	31 December 2018	31 December 2017
Loans and receivables		
Commercial	6,566,908	3,509,405
Consumer	290,827	640,615
Credit Cards	70,297	73,245
Total	**6,928,032**	**4,223,265**

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

The consolidated subsidiaries write off a loan/security balance (and any related allowances for impairment losses) when it is concluded that the loans/securities are uncollectible after all the necessary legal procedures has been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Bank has not adopted a policy to write-off loans.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Set out below is an analysis of the gross and net (of specific impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Other assets	
31 December 2018	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Individually Impaired	11,129,308	2,862,544	216,042	17,739

	Loans and advances to customers		Other assets	
31 December 2017	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Individually Impaired	7,943,186	1,570,306	186,326	18,429

(*) Impaired insurance receivables are included.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2018 and 2017.

The breakdown of performing cash loans and advances to customers and non-cash loans (financial guarantee contracts) by type of collateral are as follows:

Cash loans	**31 December 2018**	**31 December 2017**
Secured loans:	176,365,431	143,136,012
Secured by mortgages	50,400,156	*46,691,224*
Secured by cash collateral	1,309,083	*804,174*
Guarantees issued by financial institutions	*592,286*	*617,766*
Secured by government institutions or government securities	24,287,362	*19,124,808*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	99,776,544	*75,898,040*
Unsecured loans	51,514,172	45,910,844
Total performing loans and advances to customers	**227,879,603**	**189,046,856**

Non-cash loans (financial guarantee contracts)	**31 December 2018**	**31 December 2017**
Secured loans:	36,850,381	23,958,230
Secured by mortgages	4,239,700	*3,210,379*
Secured by cash collateral	236,830	*149,782*
Guarantees issued by financial institutions	269,516	*158,194*
Secured by government institutions or government securities	608,368	*570,608*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	31,495,967	*19,869,267*
Unsecured loans	29,153,605	27,114,852
Total non-cash loans	**66,003,986**	**51,073,082**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

	31 December 2018	31 December 2017
Cash collateral(*)	-	-
Mortgages	4,688,013	3,108,721
Promissory notes(*)	-	-
Others(**)	6,441,295	4,834,465
Total	**11,129,308**	**7,943,186**

(*) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral and promissory notes amounts are shown as very small / zero in the table.

(**) Sureties obtained for impaired loans are not presented in this table.

Sectorial and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables are shown below:

	31 December 2018		31 December 2017	
Sectorial concentration	**Amount**	**%**	**Amount**	**%**
Consumer loans	1,711,799	15.38	1,507,985	18.98
Construction	809,999	7.28	519,406	6.54
Textile	187,902	1.69	102,757	1.29
Food	471,081	4.23	304,542	3.83
Service sector	444,824	4.00	425,305	5.35
Agriculture and stockbreeding	151,813	1.36	55,613	0.70
Metal and metal products	401,037	3.60	316,087	3.98
Durable consumer goods	244,729	2.20	190,321	2.40
Financial institutions	247,352	2.22	94,336	1.19
Others	6,458,772	58.04	4,426,834	55.73
Total non-performing loans and advances to customers	**11,129,308**	**100.00**	**7,943,186**	**100.00**

	31 December 2018		31 December 2017	
Geographical concentration	**Amount**	**%**	**Amount**	**%**
Turkey	11,001,795	98.86	7,852,223	98.85
Austria	8,324	0.07	7,957	0.10
Germany	101,401	0.91	71,438	0.90
Other	17,788	0.16	11,568	0.15
Total non-performing loans and advances to customers	**11,129,308**	**100.00**	**7,943,186**	**100.00**

Offsetting financial assets and financial liabilities

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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

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

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

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
31 December 2018							
	Derivatives - trading assets	4,413,383	-	4,413,383	-	1,501,471	2,911,912
	Reverse repurchase agreements	3,500	-	3,500	3,500	-	-
31 December 2017							
	Derivatives - trading assets	1,946,251	-	1,946,251	-	762,718	1,183,533
	Reverse repurchase agreements	6,244	-	6,244	6,244	-	-

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral given	Net amount
31 December 2018							
	Derivatives - trading liabilities	2,552,248	-	2,552,248	-	6,891,333	(4,339,085)
	Repurchase agreements	29,123,872	-	29,123,872	29,089,793	34,079	-
31 December 2017							
	Derivatives - trading liabilities	1,180,542	-	1,180,542	-	1,180,542	-
	Repurchase agreements	22,451,757	-	22,451,757	22,446,547	5,210	-

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Transferred of Financial Assets Held or Pledged as Collaterals

	31 December 2018		31 December 2017	
Asset pledged	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Balances with other banks	3,150,949	-	338,923	-
Trading securities	19,976	-	1,552	-
-Legal requirements	*19,976*	-	*1,552*	-
Investment securities	2,449,062	-	17,376,949	-
- Financial assets at fair value through other comprehensive income	138,420	-	8,898,305	-
-Legal requirements	*138,420*	-	*8,898,305*	-
- Financial assets at amortised cost	2,310,642	-	8,478,644	-
-Legal requirements	*2,310,642*	-	*8,478,644*	-
Total	**5,619,987**		**17,717,424**	**-**

	31 December 2018		31 December 2017	
Transferred asset that are not de-recognized	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Investment securities				
- Financial assets at fair value through other comprehensive income portfolio	2,496,293	2,464,710	1,839,026	1,718,268
-Repurchase agreement	*2,496,293*	*2,464,710*	*1,839,026*	*1,718,268*
Investment securities				
- Financial assets at amortised cost portfolio	29,029,809	24,203,385	7,767,017	5,831,842
- Repurchase agreement	*29,029,809*	*24,203,385*	*7,767,017*	*5,831,842*
Total	**31,526,102**	**26,668,095**	**9,606,043**	**7,550,110**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

The consolidated liquidity coverage ratio averages for current period. The highest value and the lowest value occurred in this period are given below:

Liquidity Coverage Ratio	TL+FC		FC	
	DATE	RATIO (%)	DATE	RATIO (%)
The lowest value	October 2018	106.95	November 2018	234.68
The highest value	December 2018	117.88	December 2018	304.93

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries).

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

31 December 2018	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and balances with Central Banks	31,889,428	4,927,283	775,107	307,355	292,915	-	38,192,088
Financial assets at fair value through profit or loss	35,609	112,095	57,144	502,630	3,317,686	612,838	4,638,002
Loans and advances to banks	-	174,854	389,404	896,983	411,747	-	1,872,988
Loans and advances to customers(*)	3,008,094	21,771,128	7,133,228	41,380,635	94,209,537	60,277,649	227,780,271
Investment securities	512,516	216,095	2,189,698	3,827,784	24,729,407	19,886,508	51,362,008
Other assets	5,694,139	3,263,342	192,721	748,998	5,494,785	496,322	15,890,307
Total assets	**41,139,786**	**30,464,797**	**10,737,302**	**47,664,385**	**128,456,077**	**81,273,317**	**339,735,664**
Derivative financial instruments	-	69,516	61,535	69,738	2,080,439	271,020	2,552,248
Deposits from banks	397,157	5,059,670	1,394,780	212,887	-	-	7,064,494
Deposits from customers	36,315,246	94,930,725	29,645,143	12,399,787	1,919,637	28,021	175,238,559
Obligations under repurchase agreements	-	26,500,499	674,788	-	1,656,338	292,247	29,123,872
Funds borrowed	-	2,481,146	3,917,309	17,846,735	14,838,190	6,349,469	45,432,849
Debt securities issued	-	2,036,776	1,627,258	3,617,966	15,490,491	-	22,772,491
Subordinated debts	-	-	-	-	3,429,970	9,592,053	13,022,023
Current tax liabilities	-	569,945	287,219	-	-	-	857,164
Other liabilities and provisions	7,124,610	5,279,417	237,153	94,611	33,957	17,077	12,786,825
Total liabilities	**43,837,013**	**136,927,694**	**37,845,185**	**34,241,724**	**39,449,022**	**16,549,887**	**308,850,525**
Net	**(2,697,227)**	**(106,462,897)**	**(27,107,883)**	**13,422,661**	**89,007,055**	**64,723,430**	**30,885,139**

(*) The amount of the difference between non-performing loans and stage 3 provisions are shown in demand column.

31 December 2017	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	29,933,678	12,816,918	727,307	509	-	-	43,478,412
Financial assets at fair value through profit or loss	7,923	125,943	47,633	163,796	1,563,687	167,271	2,076,253
Loans and advances to banks	-	2,241	245,439	356,159	22,702	-	626,541
Loans and advances to customers	1,242,640	14,978,940	6,223,033	33,826,630	86,531,542	45,533,911	188,336,696
Investment securities	66,450	442,963	260,394	1,844,524	17,164,222	11,677,892	31,456,445
Other assets	5,360,034	1,596,552	144,000	420,207	500,138	15,055	8,035,986
Total assets	**36,610,725**	**29,963,557**	**7,647,806**	**36,611,825**	**105,782,291**	**57,394,129**	**274,010,333**
Trading liabilities	-	21,171	17,431	185,719	868,097	88,124	1,180,542
Deposits from banks	491,026	8,490,547	857,788	177,301	-	-	10,016,662
Deposits from customers	29,606,819	81,375,749	24,537,966	11,175,827	1,336,926	41,321	148,074,608
Obligations under repurchase agreements	-	21,797,104	-	-	449,402	205,251	22,451,757
Funds borrowed	-	1,098,000	2,013,560	13,248,095	8,769,382	6,258,751	31,387,788
Debt securities issued	-	1,250,325	2,047,593	5,605,007	9,594,565	1,373,269	19,870,759
Subordinated debts	-	-	-	-	2,579,915	3,337,222	5,917,137
Corporate tax liability	-	10,664	313,173	-	-	-	323,837
Other liabilities and provisions	4,243,593	6,378,249	714,417	305,521	3,710	2,973	11,648,463
Total liabilities	**34,341,438**	**120,421,809**	**30,501,928**	**30,697,470**	**23,601,997**	**11,306,911**	**250,871,553**
Net	**2,269,287**	**(90,458,252)**	**(22,854,122)**	**5,914,355**	**82,180,294**	**46,087,218**	**23,138,780**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk - trading portfolios

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

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based on historical simulation and Monte Carlo simulation.

Exposure to interest rate risk - non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

31 December 2018	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and balances with Central Banks	13,828,132	598,137	-	-	-	23,765,819	38,192,088
Financial assets at fair value through profit or loss	640,611	1,324,916	343,621	1,959,247	264,232	105,375	4,638,002
Loans and advances to banks	564,258	-	896,983	411,747	-	-	1,872,988
Loans and advances to customers	98,670,797	15,026,688	36,427,418	53,831,464	20,769,622	3,054,282	227,780,271
Investment securities	7,119,944	6,099,036	15,168,748	12,328,597	10,158,369	487,314	51,362,008
Assets held for sale	-	-	-	-	-	1,568,113	1,568,113
Other assets	2,125,665	90,729	169,662	498,451	522,079	13,021,946	16,428,532
Total assets	**122,949,407**	**23,139,506**	**53,006,432**	**69,029,506**	**31,714,302**	**42,002,849**	**341,842,002**
Derivative financial instruments	69,516	272,026	92,347	1,857,982	260,377	-	2,552,248
Deposits from banks	5,059,670	1,394,780	212,887	-	-	397,157	7,064,494
Deposits from customers	94,562,582	30,193,001	13,103,097	1,690,671	19,820	35,669,388	175,238,559
Obligations under repurchase agreements	27,032,125	770,764	196,271	1,124,712	-	-	29,123,872
Funds borrowed	9,556,502	21,644,977	9,030,298	3,217,685	1,551,792	431,595	45,432,849
Debt securities issued	2,134,995	1,715,079	4,478,588	14,443,829	-	-	22,772,491
Subordinated debts	-	110,871	421,903	4,363,657	8,125,592	-	13,022,023
Current tax liabilities	-	-	-	-	-	857,164	857,164
Other liabilities and provisions	580,147	126,504	226,746	90,159	2,235	11,761,754	12,787,545
Total liabilities	**138,995,537**	**56,228,002**	**27,762,137**	**26,788,695**	**9,959,816**	**49,117,058**	**308,851,245**
Net	**(16,046,130)**	**(33,088,496)**	**25,244,295**	**42,240,811**	**21,754,486**	**(7,114,209)**	**32,990,757**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

31 December 2017	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and cash equivalents	29,282,594	727,306	508	-	-	13,468,004	43,478,412
Financial assets at fair value through profit or loss	391,812	520,939	204,870	831,608	119,101	7,923	2,076,253
Loans and advances to banks	24,942	381,300	220,299	-	-	-	626,541
Loans and advances to customers	80,061,990	12,355,893	32,693,705	41,743,679	19,871,251	1,610,178	188,336,696
Investment securities	4,092,097	4,341,184	10,455,751	8,667,289	3,759,844	140,280	31,456,445
Other assets	1,133,893	177,292	144,246	793,930	126,896	5,659,684	8,035,941
Total assets	**114,987,328**	**18,503,914**	**43,719,379**	**52,036,506**	**23,877,092**	**20,886,069**	**274,010,288**
Trading liabilities	21,172	85,801	189,965	800,158	83,446	-	1,180,542
Deposits from banks	8,490,547	857,788	177,301	-	-	491,026	10,016,662
Deposits from customers	81,349,025	24,752,534	10,977,089	1,328,034	41,321	29,626,605	148,074,608
Obligations under repurchase agreements	21,797,104	-	140,509	449,402	64,742	-	22,451,757
Funds borrowed	9,507,413	11,377,264	6,276,170	2,328,263	1,663,576	235,102	31,387,788
Debt securities issued	1,247,389	2,099,508	6,111,786	9,246,249	1,165,827	-	19,870,759
Subordinated debts	-	85,187	325,240	3,297,167	2,209,543	-	5,917,137
Corporate tax liability	-	10,664	-	-	-	313,173	323,837
Other liabilities and provisions	395,784	214,242	547,341	302,845	3,616	10,184,635	11,648,463
Total liabilities	**122,808,434**	**39,482,988**	**24,745,401**	**17,752,118**	**5,232,071**	**40,850,541**	**250,871,553**
Net	**(7,821,106)**	**(20,979,074)**	**18,973,978**	**34,284,388**	**18,645,021**	**(19,964,472)**	**23,138,735**

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the years ended 31 December 2018 and 2017:

31 December 2018	US Dollar %	EUR %	TL%
Cash and cash equivalents	3.06	0.98	23.41
Financial assets at fair value through profit or loss	11.82	-	19.55
Loans and advances to banks	3.45	0.25	12.87
Loans and advances to customers	8.04	5.51	21.07
Investment securities	6.63	4.05	16.45
Deposits from banks	3.94	2.18	23.69
Deposits from customers	4.45	2.23	19.90
Obligations under repurchase agreements	3.43	1.00	21.30
Debt securities issued	5.64	2.93	19.63
Subordinated debts	11.96	-	-
Funds borrowed	4.67	1.94	17.77

31 December 2017	US Dollar %	EUR %	TL%
Cash and cash equivalents	2.13	0.45	14.73
Financial assets at fair value through profit or loss	11.82	-	13.81
Loans and advances to banks	3.45	0.25	12.87
Loans and advances to customers	6.51	4.81	15.96
Investment securities	3.00	0.80	9.57
Deposits from banks	1.51	0.36	14.12
Deposits from customers	3.54	1.72	12.11
Obligations under repurchase agreements	2.09	-	12.34
Debt securities issued	4.84	2.90	13.73
Subordinated debts	8.71	-	-
Funds borrowed	3.21	1.32	13.37

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL
31 December 2016	3.70	3.52
31 December 2017	4.52	3.78
31 December 2018	6.04	5.28

For the purposes of the evaluation of the table below, the figures represent the TL equivalent of the related foreign currencies.

Measurement Frequency of Interest Rate Risk

Interest rate risk arising from banking book accounts is calculated in accordance with “Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique” published in the 23 August 2011 dated Official Gazette no. 28034. Legal limit is monthly monitored and reported accordingly.

The economic value changes arising from the interest rate fluctuations which are measured according to “Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique” are presented in the below table:

Currency Unit-Current Period	Applied Shock (+/- x base point)	Gain/ Loss	Gain/ Equity-Loss/ Equity
1. TL	500/(400)	(2,552,723)/2,137,321	(6.27%) / 5.25%
2. EURO	200/(200)	(938,509) / 395,960	(2.31%) / 0.97%
3. USD	200/(200)	358,642 / (315,420)	0.88% / (0.77%)
Total (For Negative Shocks)	-	**2,217,861**	**5.45%**
Total (For Positive Shocks)	-	**(3,132,589)**	**(7.70%)**

Currency Unit-Prior Period	Applied Shock (+/- x base point)	Gain/ Loss	Gain/Equity-Loss/ Equity
1. TL	500/(400)	(2,370,615) / 2,318,845	(8.22%) / 8.04%
2. EURO	200/(200)	(537,399) / 364,920	(1.86%) / 1.27%
3. USD	200/(200)	513,644 / (536,219)	1.78% / (1.86%)
Total (For Negative Shocks)	-	**2,147,546**	**7.45%**
Total (For Positive Shocks)	-	**(2,394,370)**	**(8.30%)**

The above table is obtained from unconsolidated 31 December 2018 audit report announced at Public Disclosure Platform.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

31 December 2018	US Dollar	EUR	Other currencies	Total
Cash and balances with Central Banks	11,539,845	15,862,310	5,645,358	33,047,513
Financial assets at fair value through profit or loss	76,799	2,674	-	79,473
Loans and advances to banks	176,902	754,904	-	931,806
Loans and advances to customers	46,499,783	41,455,321	101,596	88,056,700
Investment securities	7,629,574	1,248,622	-	8,878,196
Other assets	6,770,057	1,703,701	5,726	8,479,484
Total foreign currency denominated monetary assets	**72,692,960**	**61,027,532**	**5,752,680**	**139,473,172**
Deposits from banks	3,827,812	1,144,660	777,891	5,750,363
Deposits from customers	31,830,140	33,564,733	3,089,695	68,484,568
Obligations under repurchase agreements	1,498,661	761,511	-	2,260,172
Funds borrowed	25,527,170	17,361,772	14,573	42,903,515
Debt securities issued	8,813,318	6,158,675	-	14,971,993
Subordinated debts	7,353,902	-	-	7,353,902
Other liabilities	3,238,571	2,116,495	8,717	5,363,783
Total foreign currency denominated monetary liabilities	**82,089,574**	**61,107,846**	**3,890,876**	**147,088,296**
Net statement of financial position	**(9,396,614)**	**(80,314)**	**1,861,804**	**(7,615,124)**
Net off balance sheet position	**(1,126,627)**	**10,790,769**	**(1,848,448)**	**7,815,694**
Net long/(short) position	**(10,523,241)**	**10,710,455**	**13,356**	**200,570**

31 December 2017	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	24,376,601	5,579,507	6,793,890	36,749,998
Financial assets at fair value through profit or loss	126,467	9,774	-	136,241
Loans and advances to banks	912	259,583	-	260,495
Loans and advances to customers	32,847,027	28,500,782	74,494	61,422,303
Investment securities	4,744,304	880,687	-	5,624,991
Other assets	2,694,141	1,057,115	406	3,751,662
Total foreign currency denominated monetary assets	**64,789,452**	**36,287,448**	**6,868,790**	**107,945,690**
Deposits from banks	7,583,695	370,000	313,320	8,267,015
Deposits from customers	24,924,280	20,194,538	1,877,353	46,996,171
Obligations under repurchase agreements	1,940,118	180,920	-	2,121,038
Funds borrowed	16,583,439	12,671,033	-	29,254,472
Debt securities issued	8,360,569	4,681,410	-	13,041,979
Subordinated debts	5,388,949	-	-	5,388,949
Other liabilities	2,925,243	1,012,213	69,816	4,007,272
Total foreign currency denominated monetary liabilities	**67,706,293**	**39,110,114**	**2,260,489**	**109,076,896**
Net statement of financial position	**(2,916,841)**	**(2,822,666)**	**4,608,301**	**(1,131,206)**
Net off balance sheet position	**2,191,663**	**4,803,952**	**(4,607,585)**	**2,388,030**
Net long/(short) position	**(725,178)**	**1,981,286**	**716**	**1,256,824**

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2018 and 2017 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

	31 December 2018		31 December 2017	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	267,895	267,895	(72,518)	(72,518)
EUR	(249,173)	(163,029)	198,129	198,129
Other currencies	1,336	1,336	72	72
Total, net	**20,058**	**106,202**	**125,683**	**125,683**

10 percent revaluation of the TL against the following currencies as at and for years ended 31 December 2018 and 2017 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2018		31 December 2017	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	(267,895)	(267,895)	72,518	72,518
EUR	249,173	163,029	(198,129)	(198,129)
Other currencies	(1,336)	(1,336)	(72)	(72)
Total, net	**(20,058)**	**(106,202)**	**(125,683)**	**(125,683)**

This analysis assumes that all other variables, in particular interest rates, remain constant.

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortized cost are not materially different than their recorded values except for those of loans and advances to customers, investment securities and deposit from customers. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, funds borrowed and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables 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.

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Deposits from customers

The estimated fair value of deposits from other banks 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.

Set out below is a comparison by category of carrying amounts and fair values of the Group's major financial instruments that are carried in the financial statements at other than fair values

	Carrying amount		Fair value	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Financial assets				
Loans and advances to customers	227,780,271	188,336,696	223,166,109	188,511,481
Financial assets at fair value through profit or loss	4,638,002	2,076,253	4,638,002	2,076,253
Investment securities	51,362,008	31,456,445	47,709,663	31,156,468
Financial assets at fair value through other comprehensive income	*11,385,945*	14,690,374	*11,385,945*	14,690,374
Financial assets measured at amortised cost	*39,976,063*	16,766,071	*36,323,718*	16,466,094
Financial liabilities				
Deposits from other banks	7,064,494	10,016,662	7,064,494	10,016,662
Deposits from customers	175,238,559	148,074,608	175,137,004	148,014,699
Funds borrowed	45,432,849	31,387,788	45,322,174	31,362,999

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

31 December 2018	**Level 1**	**Level 2**	**Level 3(*)**	**Total**
Asset carried at fair value				
Financial assets - FVPL	**14,560**	**4,623,415**	**27**	**4,638,002**
Debt securities	10,164	-	-	10,164
Equity securities	2,887	69,766	27	72,680
Other financial assets	1,509	140,266	-	141,775
Derivative financial assets held for trading purposes	-	4,413,383	-	4,413,383
Investment securities - FVOCI	**8,876,012**	**1,923,208**	**-**	**10,799,220**
Debt securities	7,895,462	1,858,149	-	9,753,611
Other financial assets	980,550	65,059	-	1,045,609
Financial assets measured at amortised cost	**27,132,405**	**9,106,833**	**84,480**	**36,323,718**
Debt securities	27,132,405	9,106,833	84,480	36,323,718
Investments in affiliates and subsidiaries	**-**	**-**	**586,725**	**586,725**
Total financial assets	**36,022,977**	**15,653,456**	**671,232**	**52,347,665**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(2,552,248)	-	(2,552,248)
Total financial liabilities	**-**	**(2,552,248)**	**-**	**(2,552,248)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

31 December 2017	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets at fair value through profit/loss	**13,078**	**2,063,175**		**2,076,253**
Debt securities	6,759	116,924	-	123,683
Derivative financial assets held for trading purpose	-	1,946,251	-	1,946,251
Investment funds	5,380	-	-	5,380
Equity securities	939	-	-	939
Investment securities - available-for-sale	**11,554,994**	**3,015,375**	**120,005**	**14,690,374**
Debt securities	11,554,994	2,972,020	-	14,527,014
Equity securities	-	43,355	120,005	163,360
Security Held to Maturity	**8,586,814**	**7,765,880**	**113,400**	**16,466,094**
Debt securities	8,586,814	7,765,880	113,400	16,466,094
Total financial assets	**20,154,886**	**12,844,430**	**233,405**	**33,232,721**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(1,180,542)	-	(1,180,542)
Total financial liabilities	**-**	**(1,180,542)**	**-**	**(1,180,542)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as follows:

	31 December 2018	31 December 2017
Balance at the beginning of the period - 1 January	233,405	267,961
Total gains or losses for the period recognized in other comprehensive income	437,827	(34,556)
Balance at the end of the period	**671,232**	**233,405**

(e) Operational risk

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

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering as a whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses may be exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in 28 June 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at 31 December 2018, value of consolidated operational risk amounted to TL 17,136,335 (31 December 2017: TL 14,523,725).

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management - regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2018 and 2017 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

The Bank's regulatory capital position on a consolidated basis at 31 December 2018 and 2017 is as follows:

	Consolidated		Parent Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Capital Requirement for Credit Risk (CRCR)	18,279,019	14,366,415	17,335,746	13,444,787
Capital Requirement for Market Risk (CRMR)	112,767	63,989	79,746	52,190
Capital Requirement for Operational Risk (CROR)	1,370,907	1,161,898	1,340,600	1,140,412
Common Equity Tier 1 Capital	28,598,031	23,225,349	27,931,467	22,906,065
Tier 1 Capital	33,591,606	23,174,257	32,925,042	22,863,871
Tier 2 Capital	7,932,280	5,971,026	7,782,352	5,969,331
Deductions from Capital	(1,444)	(1,355)	(1,444)	(1,355)
Total Capital	41,522,442	29,143,928	40,705,950	28,831,847
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	16.47	14.95	16.99	15.52
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	13.32	11.89	13.75	12.31
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	11.34	11.92	11.66	12.33

5. INSURANCE RISK MANAGEMENT

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contact, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group’s liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

5. INSURANCE RISK MANAGEMENT (Continued)

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate these risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

i) Financial strength,
ii) Long-term relationship approach,
iii) Competitive prices
iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

6. SEGMENT REPORTING

Geographical information

The Group's activities are conducted predominantly in Turkey which is also the main operating company. The Group conducts majority of its business activities with local customers in Turkey.

Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking: Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking: Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking: Includes the Group's trading and corporate finance activities.
This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Insurance: Includes the Group's insurance business.

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

Others: Includes combined information about operating segments that do not meet the quantitative thresholds.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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

6. SEGMENT REPORTING (Continued)

Information about operating segments

31 December 2018	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	7,140,628	17,326,571	2,948,588	-	27,415,787	-	200,059	508,112	6,239	28,130,197	(29,462)	28,100,735
Interest expense on deposit	(8,341,245)	(6,805,449)	(558,753)	-	(15,705,447)	-	-	-	5,918	(15,699,529)	181,560	(15,517,969)
Operating profit	**(1,138,548)**	**7,612,251**	**4,423,143**	**134,259**	**11,031,105**	**1,948,293**	**20,147**	**146,028**	**360,092**	**13,505,665**	**(104,278)**	**13,401,387**
Profit before income tax	(2,295,844)	4,823,028	3,392,299	(816,156)	5,103,327	244,107	(2,482)	123,765	115,126	5,583,843	67,954	5,651,797
Income tax expense										(985,895)	-	(985,895)
Profit for the year										4,597,948	67,954	4,665,902
31 December 2018												
Segment assets	51,672,411	171,331,856	91,340,336	20,237,708	334,582,311	4,723,475	2,992,823	2,668,947	2,156,360	347,123,916	(2,616,640)	344,507,276
Investments accounted for using the equity method	-	-	2,564,959	-	2,564,959	622,986	8,900	4,173	115,033	3,316,051	(2,944,029)	372,022
Total assets	**51,672,411**	**171,331,856**	**93,905,295**	**20,237,708**	**337,147,270**	**5,346,461**	**3,001,723**	**2,673,120**	**2,271,393**	**350,439,967**	**(5,560,669)**	**344,879,298**
Segment liabilities	92,194,464	84,567,780	115,275,164	15,642,647	307,680,055	4,095,817	2,838,364	2,444,424	1,037,819	318,096,479	(2,707,029)	315,389,450
Equity including non-controlling interest	-	-	-	29,467,215	29,467,215	1,250,644	163,359	228,696	1,233,574	32,343,488	(2,853,640)	29,489,848
Total liabilities and equity	**92,194,464**	**84,567,780**	**115,275,164**	**45,109,862**	**337,147,270**	**5,346,461**	**3,001,723**	**2,673,120**	**2,271,393**	**350,439,967**	**(5,560,669)**	**344,879,298**
Tangible fixed assets				611,786	611,786					611,786		611,786
Intangible fixed assets				153,769	153,769					153,769		153,769
Depreciation				(122,193)	(122,193)					(122,193)		(122,193)
Amortization				(90,877)	(90,877)					(90,877)		(90,877)

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

6. SEGMENT REPORTING (Continued)

31 December 2017	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	5,627,280	11,036,196	1,668,948	-	18,332,424	-	139,041	-	2,704	18,474,169	(20,955)	18,453,214
Interest expense on deposit	(4,372,191)	(4,619,635)	(249,932)	-	(9,241,758)	-	-	-	-	(9,241,758)	51,072	(9,190,686)
Operating profit	**1,535,580**	**6,393,310**	**1,797,096**	**12,760**	**9,738,746**	**1,522,666**	**60,890**	**38,495**	**125,841**	**11,486,638**	**(120,092)**	**11,366,546**
Profit before income tax	645,154	4,351,053	1,155,997	(1,440,412)	4,711,792	202,776	43,106	28,866	44,340	5,030,880	18,744	5,049,624
Income tax expense										(1,047,468)	-	(1,047,468)
Profit for the year										**3,983,412**	**18,744**	**4,002,156**

31 December 2017	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	48,230,054	136,210,592	76,716,283	10,045,506	271,202,435	3,614,072	2,088,920	2,243,613	1,656,084	280,805,124	(1,617,257)	279,187,867
Investments accounted for using the equity method	-	-	2,468,154	-	2,468,154	504,943	6,449	2,693	91,936	3,074,175	(2,731,645)	342,530
Total assets	**48,230,054**	**136,210,592**	**79,184,437**	**10,045,506**	**273,670,589**	**4,119,015**	**2,095,369**	**2,246,306**	**1,748,020**	**283,879,299**	**(4,348,902)**	**279,530,397**
Segment liabilities	68,788,960	80,227,299	87,249,334	12,888,665	249,154,258	3,147,637	1,890,231	2,101,241	567,613	256,860,980	(1,681,347)	255,179,633
Equity including non-controlling interest	-	-	-	24,516,331	24,516,331	971,378	205,138	145,065	1,180,407	27,018,319	(2,667,555)	24,350,764
Total liabilities and equity	**68,788,960**	**80,227,299**	**87,249,334**	**37,404,996**	**273,670,589**	**4,119,015**	**2,095,369**	**2,246,306**	**1,748,020**	**283,879,299**	**(4,348,902)**	**279,530,397**
Tangible fixed assets				171,218	171,218					171,218		171,218
Intangible fixed assets				63,258	63,258					63,258		63,258
Depreciation				(144,869)	(144,869)					(144,869)		(144,869)
Amortization				(41,112)	(41,112)					(41,112)		(41,112)

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

7. CASH AND BALANCES WITH CENTRAL BANKS

As at 31 December 2018 and 2017, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

	31 December 2018	31 December 2017
Cash on hand	2,345,969	1,990,927
Due from Central Bank	14,031,341	20,881,397
Balances with the CBRT excluding reserve deposits	15,113,048	5,421,152
Money market placements and receivables from repurchase agreements	6,839	1,659,035
Loans and advances to banks with original maturity less than three months	5,699,201	13,136,670
Others	995,690	389,231
Total cash and cash equivalents in the consolidated statement of financial position	**38,192,088**	**43,478,412**
Accruals on cash and cash equivalents	(118,461)	(7,032)
Blocked bank deposits	(3,162,140)	(577,843)
Due from Central Bank	(14,031,341)	(20,881,397)
Expected Credit Loss	(1,294)	-
Total cash and cash equivalents in the consolidated statement of cash flows	**20,878,852**	**22,012,140**

As of December 31, 2018, TL 3,162,140 is blocked bank deposits (December 31, 2017: TL 577,843). The blocked bank deposits in the amount of TL 3,162,140 consist of TL 589,752 held against the "Diversified Payment Rights" securitizations and TL 5,941 held against insurance liabilities of the Group in favor of the Turkish Treasury, TL 2,566,447 additional required reserve established in favor of CBRT

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	31 December 2018		31 December 2017	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt instruments held at fair value:				
Government bonds in TL	3,200	3,131	200	203
Asset-backed securities	34,000	33,366	2,000	1,988
Eurobonds issued by the Turkish Government	5,045	7,033	3,625	5,855
Corporate bonds in TL	70,310	69,587	106,980	107,067
Bonds issued by banks	-	-	1,950	1,886
	112,555	**113,117**	**114,755**	**116,999**
Equity and other non-fixed income instruments:				
Investment funds	-	38,822	-	12,064
Equity shares	-	72,680	-	939
Derivative financial instruments held for trading purposes	-	4,413,383	-	1,946,251
	-	**4,524,885**	**-**	**1,959,254**
Total financial assets at fair value through profit or loss	**112,555**	**4,638,002**	**114,755**	**2,076,253**

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the year ended 31 December 2018, net income from trading of financial assets (including investment securities) amounting to TL 429,180 (31 December 2017: TL 32,765) is included in "trading income".

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The following table summarizes securities that were deposited as collateral with respect to various banking and insurance transactions:

	31 December 2018		31 December 2017	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Turkish Treasury for insurance operations	6,293	6,040	959	1,552
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	13,800	13,936	-	-
	20,093	**19,976**	**959**	**1,552**

Derivative financial instruments held for trading purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying items, such as financial instrument prices, reference rates, commodity prices or indices. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments used mainly include currency forwards, interest rate swaps, currency swaps and currency options.

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

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

	31 December 2018	31 December 2017
	Notional Amounts	**Notional Amounts**
Trading Derivatives		
Foreign Currency Related Derivative Transactions	**46,493,564**	**28,048,820**
Currency Forwards	2,744,719	2,770,498
Currency Swaps	41,266,318	24,420,686
Currency Futures	-	-
Currency Options	2,482,527	857,636
Interest Rate Derivative Transactions	**46,832,308**	**16,961,096**
Interest Rate Forwards	-	-
Interest Rate Swaps	46,832,308	16,961,096
Interest Rate Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	**17,683,118**	**16,340,947**
Total Derivative Transactions	**111,008,990**	**61,350,863**

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	31 December 2018					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	9,999,599	884,162	2,067,889	241,548	-	13,193,198
Sales	7,084,492	890,248	1,965,785	202,080	-	10,142,605
Currency forwards:						
Purchases	289,468	299,945	761,559	23,151	-	1,374,123
Sales	288,694	298,892	759,874	23,136	-	1,370,596
Cross currency interest rate swaps:						
Purchases	105,600	-	556,431	8,492,044	502,138	9,656,213
Sales	47,002	-	235,455	7,575,851	415,994	8,274,302
Interest rate swaps:						
Purchases	-	-	50,000	9,243,910	14,122,244	23,416,154
Sales	-	-	50,000	9,243,910	14,122,244	23,416,154
Currency options:						
Purchases	334,764	50,487	830,025	-	-	1,215,276
Sales	348,761	59,812	858,678	-	-	1,267,251
Other:						
Purchases	-	422,400	-	6,324,292	1,774,159	8,520,851
Sales	2,975,026	305,901	-	4,428,802	1,452,538	9,162,267
Total of purchases	**10,729,431**	**1,656,994**	**4,265,904**	**24,324,945**	**16,398,541**	**57,375,815**
Total of sales	**10,743,975**	**1,554,853**	**3,869,792**	**21,473,779**	**15,990,776**	**53,633,175**
Total of derivatives	**21,473,406**	**3,211,847**	**8,135,696**	**45,798,724**	**32,389,317**	**111,008,990**

	31 December 2017					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	3,321,304	3,044,756	908,460	271,380	-	7,545,900
Sales	718,359	795,056	899,832	287,826	-	2,701,073
Currency forwards:						
Purchases	191,078	237,194	861,239	96,150	-	1,385,661
Sales	190,999	237,075	860,677	96,086	-	1,384,837
Cross currency interest rate swaps:						
Purchases	264,597	37,800	303,700	6,677,071	140,118	7,423,286
Sales	161,595	25,580	303,700	6,126,870	132,682	6,750,427
Interest rate swaps:						
Purchases	100,000	100,000	-	4,262,921	4,017,627	8,480,548
Sales	100,000	100,000	-	4,262,921	4,017,627	8,480,548
Currency options:						
Purchases	333,265	19,141	73,700	-	-	426,106
Sales	336,538	19,392	75,600	-	-	431,530
Other:						
Purchases	38,820	75,600	415,800	2,683,002	3,430,128	6,643,350
Sales	2,646,434	2,316,290	326,755	1,945,000	2,463,118	9,697,597
Total of purchases	**4,249,064**	**3,514,491**	**2,562,899**	**13,990,524**	**7,587,873**	**31,904,851**
Total of sales	**4,153,925**	**3,493,393**	**2,466,564**	**12,718,703**	**6,613,427**	**29,446,012**
Total of derivatives	**8,402,989**	**7,007,884**	**5,029,463**	**26,709,227**	**14,201,300**	**61,350,863**

Set out below accruals of derivative instruments:

	Asset	
	31 December 2018	**31 December 2017**
Forwards	85,088	25,936
Swaps	4,324,075	1,919,385
Options	4,220	930
Fair value of derivatives	**4,413,383**	**1,946,251**

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

9. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The Group lends its extra fund as a result of daily operations to other financial institutions through reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

	31 December 2018		31 December 2017	
	Fair value of underlying assets	Carrying Value of corresponding assets	Fair value of underlying assets	Carrying Value of corresponding assets
Repurchase agreements	3,500	3,500	6,244	6,244

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The counterparties cannot resell or re-pledged the assets. Assets sold under repurchase agreements comprise the following:

	31 December 2018		31 December 2017	
	Fair value of underlying assets	Carrying value of corresponding liabilities	Fair value of underlying assets	Carrying value of corresponding liabilities
Debt and other instruments at FVOCI	2,496,293	3,199,625	2,019,946	1,991,350
Debt and other instruments at amortised cost	29,029,809	25,924,247	20,131,929	20,460,407
Total	**31,526,102**	**29,123,872**	**22,151,875**	**22,451,757**

Accrued interest on obligations under repurchase agreements amounted to TL 88,728 (31 December 2017: TL 17,082) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

10. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at 31 December 2018 and 2017:

	31 December 2018			31 December 2017		
	TL	FC	Total	TL	FC	Total
Domestic banks	331,884	1,199,225	1,531,109	25,484	122,115	147,599
Foreign banks	875	349,476	350,351	799	478,143	478,942
Provisions	(790)	(7,682)	(8,472)	-	-	-
Total	**331,969**	**1,541,019**	**1,872,988**	**26,283**	**600,258**	**626,541**

As at 31 December 2018, the group has no loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts (31 December 2017: None) held against the insurance liabilities of the Group in favor of the Turkish Treasury.

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

11. LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2018 and 31 December 2017, outstanding loans and advances to customers comprise the followings:

31 December 2018	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	150,666,335	43,289,478	8,570,846	2,605,489	2,182,900	207,315,048
Stage 2 loans to customers	18,337,336	1,225,674	373,023	29,820	598,702	20,564,555
Stage 3 loans to customers	8,342,457	1,776,853	808,360	45,491	156,147	11,129,308
Total gross loans to customers	**177,346,128**	**46,292,005**	**9,752,229**	**2,680,800**	**2,937,749**	**239,008,911**
Less: Stage 1 expected credit loss	1,222,456	146,781	172,727	14,602	78,730	1,635,296
Less: Stage 2 expected credit loss	1,221,022	47,707	39,601	843	17,407	1,326,580
Less: Stage 3 expected credit loss	6,113,429	1,352,614	667,291	43,895	89,535	8,266,764
Total expected credit loss	**8,556,907**	**1,547,102**	**879,619**	**59,340**	**185,672**	**11,228,640**
Total loans and advances to customers	**168,789,221**	**44,744,903**	**8,872,610**	**2,621,460**	**2,752,077**	**227,780,271**

	31 December 2017
Corporate loans	133,308,666
Neither past due nor impaired	*128,357,341*
Past due but not impaired	*4,951,325*
Consumer loans	42,597,421
Neither past due nor impaired	*40,819,309*
Past due but not impaired	*1,778,112*
Credit cards	7,122,855
Neither past due nor impaired	*6,835,261*
Past due but not impaired	*287,594*
Loans to Financial Institutions	1,945,412
Neither past due nor impaired	*1,940,932*
Past due but not impaired	*4,480*
Finance lease receivables, net of unearned income	1,880,200
Neither past due nor impaired	*(171,388)*
Past due but not impaired	*2,051,588*
Factoring receivables	2,192,302
Total performing loans	**189,046,856**
Non-performing loans	7,943,186
Total gross loans	**196,990,042**
Allowance for incurred loan losses from loans and advances to customers	(8,653,346)
Specific impairment	*(6,372,880)*
Collective impairment	*(2,280,466)*
Loans and advances to customers, net	**188,336,696**

The specific allowance for incurred losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances.

	1 January 2018	**31 December 2018**
Stage 1 provision	1,498,660	1,635,296
Stage 2 provision	465,073	1,326,580
Stage 3 provision	6,157,549	8,266,764
Total Provisions	**8,121,282**	**11,228,640**

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

11. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The credit quality analysis of outstanding loans and advances to customers:

	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	1,847,087	265,099	6,372,880
Impact of adopting IFRS 9 at 1 January 2018	(348,427)	199,974	(215,331)
Balances at 1 January 2018	1,498,660	465,073	6,157,549
Transfer to Stage 1	39,450	(39,262)	(188)
Transfer to Stage 2	(115,773)	142,901	(27,128)
Transfer to Stage 3	(33,454)	(94,711)	128,165
Recoveries and reversals	(339,134)	(493,701)	(382,303)
Provision for the period	585,547	1,346,280	2,390,669
Balances at the end of the period	**1,635,296**	**1,326,580**	**8,266,764**

Movements in the allowance for incurred loan losses are as follows:

	31 December 2017
Reserve at the beginning of the year	7,805,190
Adjustment for currency translation	-
Reserve for incurred loan losses provided during the year	1,795,230
Recoveries	(947,074)
Provision, net of recoveries	**8,653,346**
Loans written off during the year	-
Reserve at the end of the year	**8,653,346**

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

31 December 2018	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Corporate	12,902,843	1,626,219	3,808,273	18,337,335
Consumer	431,006	474,173	320,495	1,225,674
Credit cards	131,405	142,146	99,472	373,023
Other	69,247	53,502	505,774	628,523
Total	**13,534,501**	**2,296,040**	**4,734,014**	**20,564,555**

31 December 2017	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Corporate	1,694,365	1,149,822	1,057,706	3,901,893
Consumer	302,804	839,672	314,114	1,456,590
Credit cards	49,423	145,227	66,200	260,850
Total	**2,046,592**	**2,134,721**	**1,438,020**	**5,619,333**

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired:

31 December 2018	31 December 2018	31 December 2017
Mortgage	2,937,423	1,831,566
Vehicle	672,719	432,360
Other (*)	1,181,368	331,457
Total	**4,791,510**	**2,595,383**

(*) Includes guarantees from Treasury and Credit Guarentee Fund amouting to TL 653,341 (31 December 2017: TL 37,929).

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

11. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

	31 December 2018	31 December 2017
Mortgage	7,386,909	3,235,429
Vehicle	1,134,797	745,684
Cash	32,998	13,603
Other	7,155,157 (*)	708,154
Total	**15,709,861**	**4,702,870**

(*) Includes guarantees from Treasury and Credit Guarentee Fund amounting to TL 3,018,918.

12. INVESTMENT SECURITIES

As at 31 December 2018 and 2017, investment securities comprise the following:

	31 December 2018	31 December 2017
FVOCI financial assets	11,385,945	14,690,374
Amortized cost investment securities / Held to maturity	39,976,063	16,766,071
Total investment securities	**51,362,008**	**31,456,445**

Financial asset at fair value through OCI:

	31 December 2018		31 December 2017	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments FVOCI:				
Government bonds in TL	7,143,377	7,654,189	10,951,076	12,412,021
Eurobonds issued by the Turkish Government	1,136,310	1,144,657	816,595	885,633
Government bonds in foreign currencies	982,706	1,016,370	763,876	809,023
Bonds issued by banks	504,619	428,900	361,066	305,388
Corporate bonds	561,297	551,650	113,075	114,952
Equity shares	-	590,179	-	163,357
Total FVOCI financial assets	**10,328,309**	**11,385,945**	**13,005,688**	**14,690,374**

As at 31 December 2018 and 2017, equity shares comprised the following:

	31 December 2018	31 December 2017
Unquoted investments:		
Roketsan Roket Sanayi ve Ticaret A.Ş.	381,809	7,594
Güney Ege Enerji Ltd. Şti.	209,756	209,756
Vakıf Pazarlama Sanayi ve Ticaret A.Ş.	112,671	101,092
Visa Inc.	69,765	43,355
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	33,954	33,954
Takas ve Saklama Bankası A.Ş.	30,319	30,319
Vakıf Gayrimenkul Değerleme A.Ş.	26,247	19,480
Borsa İstanbul	13,579	12,022
Vakıf İnşaat Restorasyon A.Ş.	10,841	10,841
İzmir Enternasyonel A.Ş.	6,178	6,178
Others	17,455	11,165
Impairment	(322,395)	(322,399)
Total	**590,179**	**163,357**

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

12. INVESTMENT SECURITIES (Continued)

The following table summarizes fair value through OCI financial assets that were deposited as collaterals with respect to various banking transactions:

	31 December 2018		31 December 2017	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at financial institutions for repurchase transactions	2,201,544	2,466,748	1,581,973	1,568,810
Deposited at other institutions for repurchase transactions	21,099	29,545	539,659	539,659
Others	86,290	138,420	7,857,860	8,982,974
Total	**2,308,933**	**2,634,713**	**9,979,492**	**11,091,443**

Amortized cost investment securities:

	31 December 2018			31 December 2017		
	Face Value	**Carrying Value**	**Fair Value**	**Face Value**	**Carrying Value**	**Fair Value**
Debt instruments:						
Government bonds in TL	26,239,481	32,372,839	29,234,410	10,453,190	12,235,406	12,003,499
Certificate of deposits	84,000	84,591	84,480	113,400	113,480	113,400
Eurobonds issued by the Turkish Government	-	-	-	-	-	-
Other Bonds	7,050,009	7,518,633	7,093,973	4,048,032	4,417,185	4,462,595
Total amortized cost investment securities	**33,373,490**	**39,976,063**	**36,412,863**	**14,614,622**	**16,766,071**	**16,579,494**

Movements of investment securities are as follows:

	31 December 2018			31 December 2017		
	FVOCI Financial Assets	**Amortized Cost Investments**	**Total**	**Available-for-sale**	**Held-to-maturity**	**Total**
Balances at 31 December 2017	**14,690,374**	**16,766,071**	**31,456,445**	**18,746,424**	**8,180,535**	**26,926,959**
IFRS 9 classification	(7,497,897)	7,656,572	158,675	-	-	-
Balances at 1 January 2018	**7,192,477**	**24,422,643**	**31,615,120**	**18,746,424**	**8,180,535**	**26,926,959**
Additions (*)	9,427,122	11,162,210	20,589,332	7,483,273	2,423,358	9,906,631
Disposals (sale and redemption)	(5,152,610)	(845,797)	(5,998,407)	(4,650,615)	(2,186,864)	(6,837,479)
Transferred to available for sale financial assets	-	-	-	(7,501,432)	7,501,432	-
Changes in amortized cost and fair value	(681,682)	4,092,548	3,410,866	472,151	731,533	1,203,684
Change in Provision for Impairment	(54,280)	-	(54,280)	-	-	-
Exchange differences	659,583	1,144,459	1,804,042	140,573	116,077	256,650
Expected Credit Loss	(4,665)	-	(4,665)	-	-	-
Total	**11,385,945**	**39,976,063**	**51,362,008**	**14,690,374**	**16,766,071**	**31,456,445**

(*) The Parent Bank issued subordinated debts to a group accounted for under "Subordinated debts" in 2018, in exchange acquired government securities, as disclosed under "Financial assets at amortised cost" as debt securities, from the same group as part of a qualified sale and purchase transition differing from market.

The following table summarizes financial assets measured at amortized cost that were deposited as collaterals with respect to various banking transactions:

	31 December 2018		31 December 2017	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at financial and other institutions for repurchase transactions	23,621,059	29,029,809	5,016,563	5,788,663
Deposited at Central Bank of Turkey for repurchase transactions	-	-	-	-
Deposited at Central Bank of Turkey for interbank transactions	300,000	317,747	376,150	399,781
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	488,100	552,079	6,654,609	7,784,640
Others	173,050	174,015	772,713	847,521
Total	**24,582,209**	**30,073,650**	**12,820,035**	**14,820,605**

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

13. INVESTMENTS IN ASSOCIATES

As at 31 December 2018 and 2017 investments in equity participations accounted for using the equity method are as follows:

	31 December 2018	31 December 2017
Unquoted investments:		
T. Sınai Kalkınma Bankası A.Ş.	358,902	329,794
Kıbrıs Vakıflar Bankası Ltd.	13,120	12,736
Total	**372,022**	**342,530**

14. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property and equipment and intangible assets from 1 January to 31 December 2018 and 1 January to 31 December 2017 are as follows:

Property and equipment	1 January 2018	Currency translation difference	Valuation	Transfers	Additions	Disposals	31 December 2018
Cost:							
Land and buildings	1,433,651	-	(11,019)	624,419	478,336	(71,569)	2,453,818
Motor vehicles	24,744	149	(42)	-	40,607	(2,652)	62,806
Furniture, office equipment & leasehold improvements	1,089,568	-	(1,495)	-	328,581	(99,621)	1,317,033
Other tangibles	417,142	6,110	16,248	-	113	(25,701)	413,912
Total	**2,965,105**	**6,259**	**3,692**	**624,419**	**847,637**	**(199,543)**	**4,247,569**
Accumulated depreciation:							
Land and buildings	(109,663)	-	10,100	(27,892)	(13,395)	2,548	(138,302)
Motor vehicles	(18,125)	-	-	-	(6,474)	2,353	(22,246)
Furniture, office equipment & leasehold improvements	(775,847)	-	2,081	-	(154,363)	14,477	(913,652)
Other tangibles	(222,042)	-	-	-	(1,900)	17	(223,925)
Total	**(1,125,677)**	**-**	**12,181**	**(27,892)**	**(176,132)**	**19,395**	**(1,298,125)**
Net book value	**1,839,428**	**6,259**	**15,873**	**596,527**	**671,505**	**(180,148)**	**2,949,444**

Intangible assets	1 January 2018	Currency translation difference	Valuation	Transfers	Additions	Disposals	31 December 2018
Cost:							
Software programs	455,778	-	-	-	53,663	(217)	509,224
Rights	76,600	-	832	-	3,157	-	80,589
Other intangible assets	1,325	-	-	-	13,271	-	14,596
Total	**533,703**	**-**	**832**	**-**	**70,091**	**(217)**	**604,409**
Accumulated amortization:							
Software programs	(128,040)	-	-	-	(36,773)	-	(164,813)
Rights	(30,868)	-	71	-	(7,043)	-	(37,840)
Other intangible assets	(1,228)	-	(739)	-	(3,151)	-	(5,118)
Total	**(160,136)**	**-**	**(668)**	**-**	**(46,967)**	**-**	**(207,771)**
Net book value	**373,567**	**-**	**164**	**-**	**23,124**	**(217)**	**396,638**

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

14. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Property and equipment	**1 January 2017**	**Currency translation difference**	**Valuation**	**Additions**	**Disposals**	**31 December 2017**
Cost:						
Land and buildings	1,416,323	452	14,877	13,007	(11,008)	1,433,651
Motor vehicles	30,055	26	-	3,554	(8,891)	24,744
Furniture, office equipment and leasehold improvements	958,428	277	(1,968)	154,647	(21,816)	1,089,568
Other tangibles	422,153	(5,021)	-	10	-	417,142
Total	**2,826,959**	**(4,266)**	**12,909**	**171,218**	**(41,715)**	**2,965,105**
Accumulated depreciation:						
Land and buildings	(96,510)	(453)	(2,200)	(12,366)	1,866	(109,663)
Motor vehicles	(24,981)	-	-	(1,717)	8,573	(18,125)
Furniture, office equipment and leasehold improvements	(660,739)	(275)	1,582	(136,343)	19,928	(775,847)
Other tangibles	(222,042)	-	-	-	-	(222,042)
Total	**(1,004,272)**	**(728)**	**(618)**	**(150,426)**	**30,367**	**(1,125,677)**
Net book value	**1,822,687**	**(4,994)**	**12,291**	**20,792**	**(11,348)**	**1,839,428**

Intangible assets	**1 January 2017**	**Currency translation difference**	**Valuation**	**Additions**	**Disposals**	**31 December 2017**
Cost:						
Software programs	412,049	-	-	45,256	(1,527)	455,778
Rights	60,993	-	1,034	16,677	(2,104)	76,600
Other intangible assets	-	-	-	1,325	-	1,325
Total	**473,042**	**-**	**1,034**	**63,258**	**(3,631)**	**533,703**
Accumulated amortization:						
Software programs	(94,706)	-	-	(33,489)	155	(128,040)
Rights	(24,582)	-	(755)	(7,623)	2,092	(30,868)
Other intangible assets	-	(1,228)	-	-	-	(1,228)
Total	**(119,288)**	**(1,228)**	**(755)**	**(41,112)**	**2,247**	**(160,136)**
Net book value	**353,754**	**(1,228)**	**279**	**22,146**	**(1,384)**	**373,567**

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

15. ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2018, net book value of assets held for sale of the Group is amounting to TL 1,568,113 (December 31, 2017: TL 1,312,493).

With the decision of the Board of Directors dated December 13, 2018, the Parent Bank decided to sell all its shares with 100% ownership in its subsidiary Vakıf Portföy Yönetimi AŞ with a paid in capital of TL 24,000 to Ziraat Portföy Yönetimi AŞ for TL 52,500. Vakıf Portföy Yönetimi AŞ, which is one of the subsidiaries of the Parent Bank, was removed from Subsidiaries account and started to be tracked under Non-current Assets Held for Sale and Discontinued Operations account. The said transfer of Vakıf Portföy Yönetimi AŞ was concluded on January 2, 2019.

Vakıf Portföy Yönetimi AŞ, a subsidiary of The Parent Bank, is excluded from the Subsidiaries account and started to be monitored in assets classified as held for sale and liabilities classified as held for sale.

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

15. ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

The balance sheet, income and expense items of Vakıf Portföy Yönetimi AŞ and the in-group transaction balances are given below.

Assets	**Vakıf Portföy**	**In Group**	**Total net**
Cash and cash equivalents	34,648	(34,648)	-
Financial assets at fair value through profit or loss	93	-	93
Other assets	1,701	-	1,701
Total	**36,442**	**(34,648)**	**1,794**

Liabilities	**Vakıf Portföy**	**In Group**	**Total net**
Provisions	782	-	782
Current tax liabilities	717	-	717
Other liabilities	79	(32)	47
Total	**1,578**	**(32)**	**1,546**

Income and Expense	**Vakıf Portföy**	**In Group**	**Total net**
Interest Income	5,991	(5,918)	73
Interest Expenses	-	-	-
Personnel Expenses	3,714	-	3,714
Trading Income/ Losses (Net)	(1)	-	(1)
Other operating income	11,593	(5,260)	6,333
Other operating expenses	2,784	-	2,784
Provision For Taxes on Income From Continuing Operations	(2,435)	-	(2,435)
Net Profit/Loss From Continuing Operations	**8,650**	**(11,178)**	**(2,528)**

16. OTHER ASSETS

	31 December 2018	**31 December 2017**
Collaterals for derivative financial instruments	6,891,333	2,749,135
Receivables from insurance activities	1,659,613	1,229,631
Receivables from credit card payments	1,443,032	1,173,159
Prepaid expenses	1,297,784	1,099,397
Investment properties	607,400	423,498
Deferred acquisition costs for insurance contracts, gross	197,347	110,747
Receivables from term sales of fixed assets	72,096	11,116
Receivables from reinsurance activities	53,863	60,613
Receivables from private pension system	50,930	10,988
Guarantees given for repurchase agreements	32,759	151
Assets held for resale	29,443	1,363,713
Prepaid taxes other than income tax and funds to be refunded	17,464	19,702
Other	2,995,912	985,223
Total	**15,348,976**	**9,237,073**

As at 31 December 2018, reserve deposits at the CBRT were kept as the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBRT.

In accordance with “Announcement on Reserve Deposits” of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 1.5% to 8% (December 31, 2017: ranging from 4% to 10.5%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 4% to 20% in US Dollar or Euro (December 31, 2017: ranging from 4% to 24%).

As at 31 December 2018, TL 29,443 (31 December 2017: TL 1,363,713) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

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

16. OTHER ASSETS (Continued)

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the years ended 31 December 2018 and 2017, movement of deferred acquisition cost is as follows:

	31 December 2018	31 December 2017
Deferred acquisition cost at the beginning of the year	110,747	120,907
Addition	287,725	218,898
Transfer to profit/loss	(201,125)	(229,058)
Deferred acquisition cost at the end of the year	**197,347**	**110,747**

17. TRADING LIABILITIES

As at 31 December 2018 and 2017, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

	31 December 2018	31 December 2017
Swaps	2,429,217	1,124,148
Forwards	81,757	25,143
Options	41,274	31,251
Total trading liabilities	**2,552,248**	**1,180,542**

18. DEPOSITS FROM BANKS

As at 31 December 2018 and 2017, deposits from banks comprise the following:

	31 December 2018	31 December 2017
Demand deposits	397,157	491,026
Time deposits	6,667,337	9,525,636
Total deposits from banks	**7,064,494**	**10,016,662**

19. DEPOSITS FROM CUSTOMERS

As at 31 December 2018 and 2017, deposits from customers comprise the following:

	31 December 2018		31 December 2017	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	5,744,919	48,118,766	6,056,971	36,841,250
Foreign currency deposits	12,208,104	53,492,474	7,189,989	38,099,451
Residents in Turkey	*11,095,566*	*43,215,450*	*6,809,573*	*29,716,375*
Residents abroad	*1,112,538*	*10,277,024*	*380,416*	*8,383,076*
Commercial deposits	2,980,647	13,473,194	3,761,046	18,081,728
Public sector deposits	8,813,217	17,435,878	7,188,859	19,873,694
Precious metal deposit	2,625,379	-	1,600,963	-
Others	3,942,980	6,403,001	3,808,991	5,571,666
Total deposits from customers	**36,315,246**	**138,923,313**	**29,606,819**	**118,467,789**

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

20. FUNDS BORROWED

As at 31 December 2018 and 2017, funds borrowed comprise the followings in accordance with their original maturities:

	31 December 2018		31 December 2017	
	TL	Foreign Currency	TL	Foreign Currency
Short-term funds	1,662,836	4,479,579	1,342,104	3,012,582
Short-term portion of long term funds	115,204	17,600,674	193,414	11,767,289
Total short-term funds	1,778,040	22,080,253	1,535,518	14,779,871
Medium/long term funds	861,533	20,713,023	722,023	14,350,376
Total funds borrowed	**2,639,573**	**42,793,276**	**2,257,541**	**29,130,247**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 14.40% (December 31, 2017: 12.20%) of the Group’s liabilities. There is no risk concentration on funding sources of the Group.

On April 24, 2017, the loan has been renewed with a new syndicated loan amounting to US Dollar 188.5 million and Euro 716.5 million with the interest rate of US Libor + 1.15% and Euribor + 1.05% at a maturity of 367 days with participation of 37 banks, Bank of America Merrill Lynch International Limited and Emirates NBD Bank PJSC acting as coordinator, and, National Bank of Abu Dhabi PJSC acting as agent bank. On April 24, 2018, the loan has been renewed with a new syndicated loan amounting to US Dollar 100 million at a maturity of 735 days with the interest rate of US Libor +2.10% and US Dollar 229 million and Euro 778.75 million at a maturity of 367 days, with the interest rate of US Libor +1.30% and Euribor +1.20% with participation of 35 banks, Mizuho Bank, LTD and Emirates NBD Bank PJSC acting as coordinator, and first Abu Dhabi PJSC acting as agent bank.

On September 25, 2017, the loan has been provided with syndicated loan amounting US Dollar 131 million and Euro 634 million with the interest rate of US Libor + 1.35% and Euribor + 1.25% at a maturity 367 days with participation of 22 banks from 12 countries, ING Bank and Emirates NBD acting as coordinator, and ING Bank London Branch acting as agent bank. On November 21, 2018, the loan has been renewed with a new syndicated loan amounting US Dollar 122 million and Euro 528,5 with the interest rate of US Libor +2.75% and Euribor +2.65% for 1 year maturity and US Libor +3.50% for 2 year maturity at a maturity of 367 days and US Dollar 130 million at a maturity of 733 days with participation of 20 banks, NBD PJSC acting as both coordinator and agent bank.

On December 19, 2014, the Parent Bank has obtained securitization loan at the amount of US Dollar 928.6 million related to foreign transfers and treasury transactions in Euro and US Dollar. Loan amounting to US Dollar 500 million has been obtained related to foreign transfers at a maturity of five years and loan at the amount of US Dollar 428.6 million has been obtained related to treasury transactions at a maturity of seven years in seven different segments in total.

The loan obtained from European Bank for Reconstruction and Development (EBRD) amounting to US Dollar 125 million in 2014-A segment in order to finance medium term loans including to meet the needs of agricultural enterprises and support woman entrepreneurs.2014-B segment of the loan has been obtained from Wells Fargo Bank, N.A., 2014-C segment of the loan has been obtained from Raiffeisen Bank International AG, 2014-D segment of the loan has been obtained from Standard Chartered Bank, 2014-E segment of the loan has been obtained from Societe Generale, 2014-G segment of the loan has been obtained from Bank of America, N.A. and 2014-F segment of the loan related to treasury transactions has been obtained from JP Morgan Securities plc. in the scope of programme.On October 4, 2016, the Parent Bank carried out a securitization transaction in the amount of USD 890 million equivalent in Euros and US Dollars based on foreign money transfers and treasury transactions as part of the securitization program. A total of USD 310 million was provided for 5 years and USD 535 million based on treasury financing transactions was provided with 7 years maturity, based on foreign delegations of the loan provided in seven separate segments. Within the program, 2016-A segment was collected from SMBC, 2016-B segment from Wells Fargo Bank, 2016-C segment from Credit Suisse, 2016-D segment from Standard Chartered Bank, 2016-E segment from EBRD, 2016-F segment from JP Morgan and 2016-G segment from ING Bank. EBRD participated in the securitization loan with the TurSEFF II and TurSEFF III projects.

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

20. FUNDS BORROWED (Continued)

On May 4, 2018, The Parent Bank carried out a securitization transaction in the amount of USD 380 million equivalent in Euros and US Dollars based on foreign money transfers and treasury transactions as part of the securitization program. The transaction was provided for 5 years maturity, in six separate segments. Within the program, 2018-A segment was collected from ING Bank, 2018-B segment from SMBC, 2018-C segment from Standard Chartered Bank, 2016-D segment from Raiffeisen Bank, 2016-E segment from Mizuho Bank, 2018-F segment from Société Générale. In addition to the transactions, The Parent Bank has carried out a securitisation transactions in the amount of USD 300 million with ICBC Standard Bank on October 5, 2018, and thus a funding of USD 680 million was provided in scope of the DPR program in 2018.

As of December 31, 2018, the total balance is equivalent of USD 1.492 million and EUR 319 million.

On March 3, 2017, under the coordination of ICBC Turkey AŞ, The Parent Bank signed a bilateral loan agreement with ICBC Dubai amounting USD 250 million with 3 years maturity, which will be used for trade finance purposes together with general purpose financial needs.

21. DEBT SECURITIES ISSUED

	31 December 2018		31 December 2017	
	TL	**FC**	**TL**	**FC**
Nominal	8,168,977	14,462,438	7,005,913	12,795,515
Cost	7,919,208	14,390,145	6,832,622	12,723,353
Net Book Value	8,111,583	14,660,908	6,967,544	12,903,215

31 December 2018	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	January 2019-December 2023	13.79 % - 27.00 %	8,111,583	8,111,583
Bank Bonds	USD	October 2021-November 2027	5.50 % - 8.00 %	1,649,156	8,707,542
Bank Bonds	EUR	April 2019-May 2021	1.20 % - 3.72 %	985,869	5,953,366

31 December 2017	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	January 2018 - April 2023	11.20 % - 14.38 %	6,967,544	6,967,544
Bank Bonds	USD	February 2018 - May 2022	3.02 % - 5.63 %	2,204,369	8,332,516
Bank Bonds	EUR	January 2018 - May 2021	1.30 % - 3.50 %	1,010,546	4,570,699

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Turkey's first Eurobond apart from Republic of Turkey Undersecretariat of Treasury. The bond has been issued in GMTN programme on June 17, 2014 has a nominal value of 500 million Euros, maturity date on June 17, 2019 with fixed rate, 5 years maturity and annually coupon paid with 3.65% return and coupon rate 3.50%.

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Eurobond. The bond has been issued in GMTN programme on October 27, 2016 has a nominal value of US Dollar 500 million, maturity date on October 27, 2021 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.50%.

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Eurobond. The bond has been issued in GMTN programme on May 30, 2017 has a nominal value of US Dollar 500 million, maturity date on May 30, 2022 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.625%.

At January 30, 2018, the Parent Bank has issued a new bond with a maturity of 5 years with a coupon rate of 5.75%, and a final yield of 5.85% amounting to USD 650 million. This transaction has been the highest consistent bond issuance transaction The Parent Bank has ever undertaken. The total demand from over 150 investors in the export has exceeded 1.5 billion dollars.

21. DEBT SECURITIES ISSUED (Continued)

The context of Global Medium Term Notes (GMTN), The Parent Bank has issued 234 private placements with 19 different banks from 2013 June on .This private placements have issued several currencies as of (US Dollar,Euro,Swiss Frank and Japanese Yen) and the maturities are 3 months, 6 months, 1 year and 2 years. The Parent Bank has issued 4,896 million US Dollar private placements as of the date of December 31, 2018. The total private placements are 5 million Euros as of the same date on.

The Parent Bank has issued Turkey's first Euro covered bond on May 4, 2016. The bond has been issued on May 4, 2016 has nominal value of 500 million Euros, maturity date on May 4, 2021 with fixed rate, 5 years maturity and annually interest paid with coupon rate 2.375% and 2.578% rate of return.

On October 9, 2017, the Parent Bank had issued a private placement for the qualified foreign institutional investor within the context of Global Medium Term Notes (GMTN), with 5.5 years of maturity, and a nominal value of 1.333 million Turkish Liras.

The Parent Bank had realized the second Global Medium Term Notes (GMTN) on December 14, 2017 with HSBC Bank Plc with with 5 years of maturity, and a nominal value of 1.333 million Turkish Liras.

On February 28, 2018, the Bank conducted a five year maturity Covered Bond transaction with a nominal value of TL 1,000 million, which was allocated to qualified investors abroad.

On December 7, 2018 the Bank issued the second transaction of 2018 abroad with a nominal value of TL 1,000 million and 5 years of maturity. Thus, the Covered Bond issuences reached TL 7.7 billion.

22. SUBORDINATED DEBTS

The Parent Bank has issued bond having the secondary subordinated loan quality to be sold to non-resident natural and legal persons. The bond has been issued at the nominal value of US Dollar 500 million with the maturity of 10 years and 6.0% coupon rate. In addition to the bond issued on November 1, 2012, on December 3, 2012 the Parent Bank has realized second trance at nominal value of US Dollar 400 million, has the same due date and maturity of 10 years and 5.5% coupon rate.

The Bank has issued secondary subordinated loan (Tier II bond) as at January 2015 which contains Basel-III criteria. In this context, the bond has been issued at the nominal value of US Dollar 500 million with the maturity date of February 3, 2025 and early call option date of February 3, 2020. The bond has fixed interest, 10 years and one day maturity, two times interest payment in a year with coupon rate of 6.875% and issue yield of 6.95%.

In 2012, the Parent Bank carried out the sale of bond issued abroad with a maturity of 2022 maturities of USD 900 million. Regulations and amendments made within the scope of BRSA's Regulation on Equities of Banks have made it possible to comply with Basel III regulations in the capital adequacy calculations of banks as contributions capital. In this context, the effect on the capital of the Bank which has issued Basel II compliant subordinated loan provisions issued in 2012 has decreased. In this context, the operational process of the swap transaction of bonds with a total nominal value of USD 228 million which issued abroad, with the new Basel III compliant conditions, was completed on February 13, 2017 and the redemption date of the bonds to be exchanged was determined as November 1, 2027, with a maturity of 10 years (recall option in 2022) and coupon rate as 8.00%.

On September 18, 2017, the Parent Bank had issued a floating rated subordinated bond (secondary capital) for the qualified domestic institutional investor with nominal value of 525 million Turkish Liras, that has the maturity of 10 years, that is recallable in 5 years, and has quarterly coupon payments.

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

22. SUBORDINATED DEBTS (Continued)

On September 27, 2018, the Parent Bank had issued a fixed rate subordinated bond (secondary capital) with nominal value of 4,994 million Turkish Liras that is undated and recallable at the end of 5 years and has semiannual coupon payments with 12.62% fixed interest rate.

Stated bonds' total balance sheet value is TL 13,022,023 as of December 31, 2018 (December 31, 2017: TL 5,917,137).

	Current Period - 31 December 2018		Prior Period - 31 December 2017	
	TL	FC	TL	FC
Debt instruments to be included in the additional Tier 1 capital calculation	5,138,704	-	-	-
Debt instruments to be included in the additional Tier 2 capital calculation	529,417	7,353,902	528,188	5,388,949
Total	**5,668,121**	**7,353,902**	**528,188**	**5,388,949**

23. OTHER LIABILITIES AND PROVISIONS

The principal components of other liabilities and accrued expenses are as follows:

	31 December 2018	31 December 2017
Accounts against expenditures of credit card holders	5,249,772	5,582,267
Reserve for outstanding claims for insurance contracts	1,918,900	1,352,692
Margin deposit for derivative financial instruments	1,501,471	762,718
Import letter of credit	1,293,502	1,403,407
Miscellaneous payables	1,211,909	829,879
Reserve for unearned insurance premiums	1,181,638	962,862
Other provisions	1,134,905	582,231
Cheque clearing account	1,083,027	301,461
Unearned income	830,348	651,988
Reserve for short term employee benefits	484,004	340,945
Provision for employee termination benefits	463,120	417,415
Mathematical provisions	218,745	214,330
Provision for non-cash loans	158,570	75,942
Provision for unused vacations	144,983	102,256
Investment contract liabilities	83,749	90,440
Deferred commission income for insurance contracts	70,520	68,769
Blocked accounts	67,165	159,993
Payment orders	24,716	79,938
Payables due to insurance activities	44,030	25,193
Cheques response	-	79,112
Other liabilities	2,127,409	1,492,936
Total other liabilities and provisions	**19,292,483**	**15,576,774**

As of December 31, 2018, free provision amounting to TL 1,030,000 of which TL 530,000 was recognized as expense in the current period and TL 500,000 had been recognized as expense in prior period, which is not in accordance with the reporting standards, provided by the Parent Bank management in line with the conservatism principle considering the possible effect of the circumstances that may arise from the negative changes in the economy and market conditions (31 December 2017: TL 500,000).

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

23. OTHER LIABILITIES AND PROVISIONS (Continued)

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	31 December 2018	31 December 2017
Reserve for unearned insurance premiums, net	660,112	554,544
Reserve for unearned insurance premiums, reinsurer share	521,526	408,319
Reserve for unearned insurance premiums, gross	**1,181,638**	**962,863**

Reserve for unearned insurance premiums (net)	31 December 2018	31 December 2017
At the beginning of the year	554,544	450,622
Premiums written during the year	1,079,644	1,417,702
Premiums earned during the year	(974,076)	(1,313,780)
At the end of the year	**660,112**	**554,544**

Provision for outstanding claims	31 December 2018	31 December 2017
Provision for outstanding claims, net	1,012,859	707,884
Provision for outstanding claims, reinsurer share	906,041	644,808
Provision for outstanding claims, gross	**1,918,900**	**1,352,692**

Provision for outstanding claims (net)	31 December 2018	31 December 2017
At the beginning of the year	707,884	671,859
Cash paid for claims settled during the year	(440,832)	(301,542)
Increase during the year	745,807	337,567
At the end of the year	**1,012,859**	**707,884**

Long term insurance contracts	31 December 2018	31 December 2017
At the beginning of the year	312,424	273,162
Entrance during the year	49,334	111,337
Withdrawals during the year	(59,264)	(72,075)
Change in fair value of investments held for investment contracts	-	-
At the end of the year	**302,494**	**312,424**
Long term insurance contracts	218,745	*221,984*
Investment contract liabilities	83,749	*90,440*

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

Reserve for employee severance indemnity	31 December 2018	31 December 2017
At the beginning of the year	417,415	399,541
Currency translation difference	(546)	381
Interest cost	48,007	41,246
Service cost	32,920	48,811
Payment during the year	(53,689)	(44,282)
Actuarial remeasurement	19,013	(28,282)
At the end of the year	**463,120**	**417,415**

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

24. TAXATION

Components of income tax expense recognized in the consolidated statement of comprehensive income are as follows:

	31 December 2018	31 December 2017
Income tax recognized in profit or loss for the year		
Current income tax related to income from operations	(844,827)	(688,399)
Deferred income tax related to income from operations	(141,068)	(359,069)
	(985,895)	**(1,047,468)**
Income tax recognized in other comprehensive income		
Current income tax recognized in other comprehensive income	-	-
Deferred income tax recognized in other comprehensive income	(133,732)	(26,340)
	(133,732)	**(26,340)**
Income tax expense recognized in the consolidated profit or loss and other comprehensive income	**(1,119,627)**	**(1,073,808)**

The movement of tax liability is as follows:

	31 December 2018	31 December 2017
At the beginning of the year	686,803	484,199
Current income tax charge	844,827	688,399
Taxes paid during the year	(674,466)	(485,795)
Tax liability	**857,164**	**686,803**

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the years ended 31 December 2018 and 2017 is as follows:

	31 December 2018	Tax rate (%)	31 December 2017	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	**5,651,797**		**5,049,624**	
Taxes on income per statutory tax rate	(982,133)	(17.38)	(1,021,390)	(20.23)
Disallowable expenses	(3,762)	(0.07)	(26,078)	(0.52)
Income tax expense	**(985,895)**	**(17.44)**	**(1,047,468)**	**(20.74)**

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

	31 December 2018	31 December 2017
Other provisions	73,828	57,577
Valuation differences of financial assets and liabilities	42,008	163,129
Provision for employee severance indemnity and unused vacations	123,064	104,467
Valuation difference of associates and subsidiaries	119,029	12,657
Tax losses carried forward	16,830	24,099
Investment incentive	3,699	373
Reporting standards-tax code depreciation differences	-	-
Valuation difference for property and equipment	61	94
Other temporary differences	16,334	41,207
Expected credit loss	626,608	337,525
Free provision	206,000	100,000
Deferred tax assets	**1,227,461**	**841,128**
Net-off of the deferred tax assets and liabilities from the same entity	(830,746)	(392,898)
Deferred tax assets, (net)	**396,715**	**448,230**
Valuation difference of associates and subsidiaries	111,720	25,069
Valuation differences of financial assets and liabilities	621,513	306,266
Valuation difference for property and equipment	93,668	55,427
Other temporary differences	35,566	22,939
Deferred tax liability	**862,467**	**409,701**
Net-off of the deferred tax assets and liabilities from the same entity	(830,746)	(392,898)
Deferred tax liability, (net)	**31,721**	**16,803**

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

25. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

There is no dilution of shares as at 31 December 2018 and 2017.

The following reflects the basic earnings per share computations:

	31 December 2018	31 December 2017
Net profit attributable for the year	4,665,902	4,002,156
Net profit attributable to owners of the Bank	4,589,019	3,910,204
Number of 100 ordinary shares for basic earnings per shares	2,500,000,000	2,500,000,000
Basic earnings per 100 share	1.8356	1.5641
Diluted earnings per 100 share	1.8356	1.5641

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

26. EQUITY

Share capital

As at 31 December 2018, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2017: TL 2,500,000). The Bank’s paid-in capital is divided into 250,000,000,000 shares, each with a nominal value of 1 Kuruş. As at 31 December 2018, share capital presented in equity amounts to TL 3,300,146 (31 December 2017: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 31 December 2018 (31 December 2017: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005. Paid-in capital of the Bank amounting to TL 2,500,000 is divided into groups as follows: 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D). There is no difference between those groups in terms of dividend rights or any other privileges except for:

Members of the Board of Directors, three members of the group (A), one member of the group (B) and two members of the group (C) are selected from among the candidates nominated by the majority of their group, among the candidates proposed by the partners, from among the candidates elected by the General Assembly, one of the candidates proposed by the partners, taking into consideration the preferences of a group of members (D), elected by the General Assembly from among the candidates nominated by the two members.

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Non-controlling interest

As at 31 December 2018 and 2017, non-controlling interest is analyzed as follows:

	31 December 2018	31 December 2017
Capital and other reserves	874,521	851,880
Legal reserves	25,146	24,919
Retained earnings	(90,986)	(162,891)
Profit for the year	76,883	91,952
Total non-controlling interest	**885,564**	**805,860**

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

26. EQUITY (Continued)

Set out below is non-controlling profit and dividend payment for the year by subsidiaries:

	31 December 2018		31 December 2017	
	Profit or loss attributable to non-controlling interest	Dividends paid to non-controlling interest during the year	Profit or loss attributable to non-controlling interest	Dividends paid to non-controlling interest during the year
Taksim Otelcilik AŞ	7,285	-	1,397	-
Vakıf Emeklilik ve Hayat AŞ	45,659	(54,791)	16,634	(4,832)
Güneş Sigorta AŞ	(15,350)	-	52,898	-
Vakıf Faktoring AŞ	12,021	-	2,903	(1,871)
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	22,926	-	3,307	(59)
Vakıfbank International AG	3,554	-	2,743	-
Vakıf Finansal Kiralama AŞ	(768)	-	11,701	(1,790)
Vakıf Enerji ve Madencilik AŞ	1,326	-	229	-
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş	71	-	-	-
Vakıf Yatırım Menkul Değerler A.Ş	159	(16,831)	140	(11)
Total	**76,883**	**(71,622)**	**91,952**	**(8,563)**

Fair value reserves of FVOCI financial assets*:*

	31 December 2018	31 December 2017
Balance at the beginning of the year	(78,147)	(160,481)
Effects of accounting policy changes	202,045	-
Net gains/(losses) from changes in fair values	412,596	145,541
Net gains transferred to profit or loss on disposal	(21,481)	(42,623)
Related deferred and current income taxes	(118,632)	(20,584)
Balance at the end of the year	**396,381**	**(78,147)**

Summarised financial information on subsidiaries

Summarised financial information for each subsidiary that has non-controlling interests that are material to the group as follows:

	Güneş Sigorta A.Ş.		Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.		Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	
	December 2018	December 2017	December 2018	December 2017	December 2018	December 2017
Non-controlling interest ratio (%)	**51.98**	**51.98**	**61.30**	**60.46**	**81.53**	**65.46**
Total Asset	2,610,459	2,167,689	1,695,770	1,152,183	17,924	18,021
Current Asset	1,767,165	1,448,820	225,350	402,811	17,619	17,997
Non-current Asset	843,294	718,869	1,470,420	749,372	305	24
Total Liabilities	1,808,175	1,490,090	714,740	211,862	395	571
Total Equity	802,284	677,599	981,030	940,321	17,529	17,450
Interest Income	150,071	83,947	9,657	12,671	869	330
Income on securities portfolio	-	1,419	-	-	937	1,488
Profit/(loss)	10,871	26,493	40,756	75,357	102	1

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

27. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, shareholders (namely Registered Foundations represented by the General Directorate of the Foundations), subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

	31 December 2018			31 December 2017		
Related party	**Cash loans**	**Non-cash loans**	**Deposits**	**Cash loans**	**Non-cash loans**	**Deposits**
Direct/Indirect shareholders	193,217	65,079	1,112,197	17,006	57,074	1,242,940
Associates	-	-	4,288	-	-	3,258
Key management personnel	97	-	322	59	-	148
Total	193,314	65,079	1,116,807	**17,065**	**57,074**	**1,246,346**

	31 December 2018				31 December 2017			
Related party	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**
Direct/Indirect shareholders	43	4,011	112,544	-	90	21,504	106,934	-
Associates	-	-	188,336	3	-	-	99,082	7
Total	**43**	**4,011**	**300,880**	**3**	**90**	**21,504**	**206,016**	**7**

Key Management Remuneration

For the period ended 31 December 2018, the key management personnel received remuneration and fees amounted to TL 40,634 (31 December 2017: TL 29,411).

28. FEE AND COMMISSION INCOME

	31 December 2018	**31 December 2017**
Fee and commission income		
Debit and credit card fee and commission	1,431,591	900,411
Non-cash loan commission	481,657	302,089
Collection and payment commissions	365,347	148,523
Investigation charges	183,355	127,263
Money transfer charges	125,596	82,227
Reinsurance commission	120,474	83,011
Mutual funds commission	21,331	24,232
Account maintenance fee	18,325	13,793
Other	367,075	215,209
Total fee and commission income	**3,114,751**	**1,896,758**
Fee and commission expense		
Debit and credit card fee and commission	713,578	470,493
Fee and commission for funds borrowed	67,397	49,560
Fee and commission for marketable securities issued	40,795	25,544
Money transfer charges	19,118	15,638
Other	122,815	101,896
Total fee and commission expense	**963,703**	**663,131**
Net fee and commission income	**2,151,048**	**1,233,627**

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

29. OTHER INCOME

As at and for years ended 31 December 2018 and 2017, other income comprised the followings:

	31 December 2018	31 December 2017
Earned premiums	860,869	1,207,630
Written premiums	*1,079,644*	*1,417,702*
Change in reserve for unearned premiums	(218,775)	*(210,072)*
Gain on sale of fixed assets	210,465	144,418
Rent income	192,039	770
Individual pension business income	165,143	102,575
Excess fee charged to customers for communication expenses	36,269	43,602
Dividend income from equity shares	18,340	21,272
Reversal of miscellaneous provision	1,750,359	434,770
Others	722,236	167,317
Total	**3,955,720**	**2,122,354**

30. SALARIES AND EMPLOYEE BENEFITS

As at and for the years ended 31 December 2018 and 2017, salaries and employee benefits comprised the following:

	31 December 2018	31 December 2017
Wages and salaries	(1,105,774)	(798,886)
Employer's share of social security premiums	(368,112)	(257,417)
Other fringe benefits	(988,820)	(930,889)
Total	**(2,462,706)**	**(1,987,192)**

The average number of employees of the Group during the year is:

	31 December 2018	31 December 2017
The Bank	16,767	16,097
Subsidiaries	2,054	1,769
Total	**18,821**	**17,866**

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 5,434 and TL (full TL) 4,732 as at 31 December 2018 and 31 December 2017, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Discount Rate	15.99%	%12.32
Inflation Rate	11.27%	%8.00
Increase in Real Wage Rate	12.27%	%9.00

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

31. OTHER EXPENSES

As at and for the years ended 31 December 2018 and 2017, other expenses comprised the following:

	31 December 2018	**31 December 2017**
Banking services promotion expenses	(789,278)	(665,828)
Incurred insurance claims	(716,885)	(926,805)
Insurance claims paid	(678,768)	(861,159)
Change in provision for outstanding claims	(38,117)	(65,646)
Rent expenses and operating lease charges	(393,295)	(329,102)
Provision for Severance pay and Employee Benefits (*)	(353,402)	(232,854)
Communication expenses	(213,742)	(208,509)
Saving Deposit Insurance Fund premiums	(197,865)	(168,784)
Advertising expenses	(182,176)	(129,056)
Cleaning service expenses	(82,738)	(72,435)
Maintenance expenses	(63,461)	(68,415)
Other provision expenses	(62,228)	(98,164)
BRSA participation fee	(54,114)	(31,881)
Office supplies	(53,828)	(17,651)
Energy expenses	(47,147)	(34,430)
Computer usage expenses	(45,471)	(34,085)
Consultancy expenses	(38,301)	(27,285)
Transportation expenses	(30,549)	(24,017)
Credit card promotion expenses	(25,853)	(20,815)
Hosting expenses	(25,260)	(25,700)
Individual pension business expenses	-	(2,166)
Loss on sale of assets	(4,647)	(2,302)
Other various administrative expenses	(1,320,083)	(859,047)
Total	**(4,700,323)**	**(3,979,331)**

(*) On the prior period, "Provisions for employee termination benefits" and "employee termination benefits" were classified in "Personnel Expenses" item are classified under "Other Expenses" in the current period.

32. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including:

	31 December 2018	**31 December 2017**
Letters of guarantee	51,948,464	40,153,276
Letters of credit	10,199,787	8,994,152
Acceptance credits	2,972,109	1,555,554
Other guarantees	883,626	370,100
Total non-cash loans (financial guarantee contracts)	**66,003,986**	**51,073,082**
Credit card limit commitments	13,549,649	10,534,862
Loan granting commitments	14,105,349	11,935,000
Commitments for cheque payments	1,979,217	2,542,741
Commitments for credit card and banking operations promotions	571,282	761,674
Other commitments	35,225,324	24,199,642
Total commitments	**65,430,821**	**49,973,919**
Total commitments and contingencies	**131,434,807**	**101,047,001**

Contingent assets and liabilities

There are various legal cases against the Group for which TL 13,705 (31 December 2017: TL 6,348) has been provided, excluding routine insurance claims.

Due to the nature of insurance business and considering the general attitude of the legal system in favor of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group's financial position.

32. COMMITMENTS AND CONTINGENCIES (Continued)

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

33. SUBSEQUENT EVENTS

As per decision No. 92065 of The Parent Bank's Board of Directors dated December 13, 2018, the Bank transferred all its shares with 100% ownership in Vakıf Portföy Yönetimi AŞ to Ziraat Portföy Yönetimi AŞ as of January 2, 2019.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 84 days, a nominal value of TL 373,858,761 (full TL) and an ISIN code of TRFVKFB41945 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on January 11, 2019.

The Parent Bank issued a Vakıfbank financing bill with a term of 84 days, a nominal value of TL 789,640,321 (full TL) and an ISIN code of TRFVKFB41952 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on January 18, 2019.

The Parent Bank carried out a Covered Bond transaction issued on January 22, 2019, with a nominal value of TL 396,300,000 (full TL), a term of 8 years ending on January 22, 2027 and an ISIN code of XS1938440069. At the same time, the total amount of foreign resources reached TL 550,000,000 (full TL) with the inclusion of swap transactions carried out under treasury transactions.

The Parent Bank issued and offered to the public a Vakıfbank financing bill totalling TL 100,000,000 (full TL) nominal value with a term of 210 days, starting January 23, 2019 and ending August 23, 2019, on 21-22-23 January 2019 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFB81917 was determined to have TL 9,327,768 (full TL) nominal value, 210 days term, term ending August 23, 2019, with an annual compound interest rate of 21.4606%, simple interest rate of 20.5711% and an issue price of TL 89,417.

The Parent Bank issued and offered to the public a Vakıfbank financing bill totalling TL 300,000,000 (full TL) nominal value with a term of 147 days, starting January 23, 2019 and ending June 21, 2019, on 21-22-23 January 2019 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFB61927 was determined to have TL 323,414,446 (full TL) nominal value, 147 days term, term ending June 21,2019, with an annual compound interest rate of 21.8393%, simple interest rate of 20.5603% and an issue price of TL 92,353.

During The Parent Bank's Board of Directors meeting on January 24, 2019, The Parent Bank decided to decrease the number of Executive Vice Presidents from 14 to 12. Following this, Executive Vice Presidents Osman DEMREN and Mustafa SAYDAM have resigned from their positions.

Following the approval of the structured debt instruments issue cap application with a nominal value of TL 3,000,000,000 (full TL), The Parent Bank issued a Vakıfbank structured debt instrument with a term of 35 days, a nominal value of TL 100,000,000 (full TL) and an ISIN code of TR0VKFB00ZG6 to qualified investors as of January 25, 2019.

33. SUBSEQUENT EVENTS (Continued)

Following the approval of the structured debt instruments issue cap application with a nominal value of TL 20,000,000,000 (all in TRY), on April 5, 2019 the bank issued a Vakıfbank structured debt instrument with a term of 56 days, a nominal value of TL 301,790,164 (full TL) and the ISIN code of TRFVKFB51969 to qualified investors.

Following the approval of the structured debt instruments issue cap application with a nominal value of TL 20,000,000,000 (full TL), on April 12, 2019 the bank issued a Vakıfbank structured debt instrument with a term of 98 days, a nominal value of TL 844,500,000 (full TL) and an ISIN code of TRFVKFB71934 to qualified investors.

The Parent Bank issued a Vakıfbank financing bill with a term of 50 days, a nominal value of TL 76,799,656 (full TL), maturing on June 14, 2019 and with an ISIN code of TRFVKFB61950 for sale to qualified investors following the approval of the TL 20,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on April 25, 2019.

The Parent Bank offered to the public a Vakıfbank financing bill totaling TL 100,000,000 (full TL), nominal value with a maturity of 161 days, starting on April 15, 2019 and ending on September 27,2019, on April 15-16-17, 2019 via book-building method. Following the issuing, the Vakıfbank bill with ISIN code TRFVKFB91916 was determined to have a maturity of 161 days ending September 27, 2019 carrying an annual compound interest rate of 21.57%, interest rate of 20.40% and issue price of TL 91,745 (full TL).

The Parent Bank offered to the public a Vakıfbank financing bill totaling TL 300,000,000 (full TL), nominal value with a maturity of 126 days, starting on April 15, 2019 and ending on August 23,2019, on April 15-16-17, 2019 via book-building method. Following the issuing, the Vakıfbank bill with ISIN code TRFVKFB81925 was determined to have a maturity of 126 days ending August 23, 2019 carrying an annual compound interest rate of 21.90%, interest rate of 20.50% and issue price of TL 93,391 (full TL).

The Parent Bank, as approved by the BRSA on 19 April 2019, and under Article 7 of the BRSA Regulation on Bank Equities, has issued bonds in scope of the GMTN program amounting to EUR 700,000,000 to the Turkey Wealth Fund Corporation's Market Stability and Equalization Fund to be accounted for as part of the Additional Tier 1 capital and duly executed the relevant transaction on 24 April 2019, in exchange acquired government securities under "Financial assets at amortised cost". The agreement shall operate on a rolling, fixed-rate basis with the earliest prepayment option and the first interest payment set for the end of year 5. The interest rate is determined as 5.076%.

To renew the one-year term brackets of the syndicated loan dated April 24, 2018, on April 25, 2019, with the participation of 38 banks from 17 countries, and with Mizuho Bank LTD and Emirates NBD Bank PJSC as joint coordinators and Mizuho Bank LTD as the agent bank, the bank signed a syndicated loan agreement with a term of 367 days and a total cost of Libor + %2.50 for USD and Euribor + %2.40 for EUR for a syndicated loan of EUR 723,500,000 and USD 279,500,000.

The Parent Bank offered to the public a Vakıfbank financing bill totaling TL 100,000,000 (full TL), nominal value with a maturity of 247 days, starting on April 29, 2019 and ending on June 06,2019, on April 29-30, 2019 and May 02-03-06, 2019 via book-building method. Following the issuing, the Vakıfbank bill with ISIN code TRFVKFB12011 was determined to have a maturity of 247 days ending June 06, 2019 carrying an annual compound interest rate of 23.03%, interest rate of 22.25%.

The Parent Bank offered to the public a Vakıfbank financing bill totaling TL 300,000,000 (full TL), nominal value with a maturity of 107 days, starting on May 08, 2019 and ending on August 23,2019, on April 29-30, 2019 and May 02-03-06, 2019 via book-building method. Following the issuing, the Vakıfbank bill with ISIN code TRFVKFB81933 was determined to have a maturity of 107 days ending August 23, 2019 carrying an annual compound interest rate of 23.4724%, interest rate of 21.75%.

33. SUBSEQUENT EVENTS (Continued)

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 77 days, a nominal value of TL 481,963,308 (full TL) and an ISIN code of TRFVKFB71959 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on May 10, 2019.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 84 days, a nominal value of TL 629,177,637 (full TL) and an ISIN code of TRFVKFB81941to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on May 17, 2019.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 93 days, a nominal value of TL 62,744,433 (full TL) and an ISIN code of TRFVKFB81958 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on May 22, 2019.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 57days, a nominal value of TL 277,835,372 (full TL) and an ISIN code of TRFVKFB71967 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on May 23, 2019.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 43 days, a nominal value of TL 268,750,000 (full TL) and an ISIN code of TRFVKFB71975 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on May 23, 2019.

The Parent Bank issued and offered to the public a Vakıfbank financing bill totalling TL 200,000,000 (full TL) nominal value with a term of 175 days, starting May 24, 2019 and ending November 15,2019 on May 20-21-22, 2019 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFBK1929 was determined to have TL 92,623,347 (full TL) nominal value, 175 days term, term ending November 15,2019 with an annual compound interest rate of 22,5%, simple interest rate of 23,8216 % and an issue price of TL 90,263.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 121 days, a nominal value of TL 129,563,558 (full TL) and an ISIN code of TRFVKFB91924 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on May 29, 2019.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 105 days, a nominal value of TL 290,000,000 (full TL) and an ISIN code of TRFVKFB91932 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on May 31, 2019.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 85 days, a nominal value of TL 100,121,198 (full TL) and an ISIN code of TRFVKFB91940 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on June 13, 2019.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 76 days, a nominal value of TL 218,739,614 (full TL) and an ISIN code of TRFVKFB81966 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on June 14, 2019.

33. SUBSEQUENT EVENTS (Continued)

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 109 days, a nominal value of TL 84,782,004 (full TL) and an ISIN code of TRFVKFBE1927 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on June 17, 2019.

The Parent Bank issued and offered to the public a Vakıfbank financing bill totalling TL 400,000,000 (full TL) nominal value with a term of 105 days, starting June 21, 2019 and ending October 4, 2019 on June 17-18-19, 2019 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFBE1919 was determined to have TL 323,626,424 (full TL) nominal value, 105 days term, term ending October 4, 2019 with an annual compound interest rate of 22,5%, simple interest rate of 24,3609 % and an issue price of TL 93,921.

The Parent Bank issued and offered to the public a Vakıfbank financing bill totalling TL 200,000,000 (full TL) nominal value with a term of 175 days, starting June 21, 2019 and ending December 13, 2019 on June 17-18-19, 2019 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFBA1913 was determined to have TL 77,710,029 (full TL) nominal value, 175 days term, term ending December 13, 2019 with an annual compound interest rate of 22,75%, simple interest rate of 24,1012 % and an issue price of TL 90,165.

On June 25, 2019 Vakıfbank purchased USD 5 million nominal amount of its Eurobond maturing in 2022 with ISIN code of XS0849728190.

USD 150 million Eurobond issuance with 5 years maturity to be sold to qualified institutional investors who are domiciled outside of Turkey was completed. Accordingly, the issuance amount have been transferred to Vakıfbank's accounts on June 25th, 2019. Issuance certificate approved by CMB is enclosed herewith.

The Parent Bank carried out book-building regarding the issuing of a Vakıfbank financing bill with a term of 91 days, a nominal value of TL 108,060,099 (full TL) and an ISIN code of TRFVKFB91957 to be sold to qualified investors following the approval of the TL 20,000,000,000 (full TL)debt instruments issue cap application. The amount was transferred to customer accounts on July 1, 2019.

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