Türkiye Halk Bankası Anonim Şirketi
And Its Subsidiaries

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

Türkiye Halk Bankası Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türkiye Halk Bankası A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Türkiye Halk Bankası A.Ş. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matter

As detailed in Note 39, one of the Bank's former directors has been convicted for some of the charges in the first phase of the trial by the jury in the United States of America ("USA") of the violation of the USA sanctions involving Iran. The subsequent legal process is not yet completed but ongoing for the defendant director of the Bank such as appeal and other legal rights following the first phase of the trial.

The Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the Bank. The Bank is also closely following this trial by hiring external legal counsel resident in the USA.

Separate from this trial, there is an uncertainty of any negative decisions by the USA authorities against the Bank affecting its financial position, if any. The Bank's management indicated that there are no enforcement or other actions against the Bank at this stage. No provision has been made in the accompanying financial statements related to this matter. Our opinion is not modified in respect of this matter.

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.

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Key Audit Matter	How the matter was addressed in the audit
Allowance for Probable Losses on Loans	
At 31 December 2017, gross loans and advances to customers were TL 211.650.608 thousands against which loan allowance for impairment of TL 6.618.235 thousands were recorded ending with a net carrying amount of TL 205.032.373 thousands. The details are disclosed in Note 12 of the consolidated financial statements. For specific allowances, a management decision and judgement is required to determine when an impairment event has occurred and a necessary classification should be made. So there is a risk of misstatement in the calculation of the allowance related to the classification of performing / non-performing loans in accordance with IAS 39. Furthermore, the specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivables to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value using the loans' original effective interest rates, which requires management's significant judgement to exercise. Portfolio basis (collective) allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest penalties. Because of the significance of these judgements and the size of loans and advances, the audit of allowance for probable losses on loans is a key area of focus. Furthermore, there is a risk of misstatement in the calculation of allowance related to errors in the main parameters of allowance for probable losses on corporate and commercial loans (specific and collective) in accordance with IAS 39 in the IFRS financial statements.	As part of our audit work, the following procedures were performed: • We reviewed the provisioning methodology implemented by the Group. We understood and tested the key controls over the classification and provisioning methodology such as; system based and manual controls over timely recognition of impaired loans, controls over the impairment calculation models including data inputs, controls over cash flow estimates and finally governance controls which include the management meetings for the approvals process of allowance for probable losses on loans. • We have performed a loan review process by testing a sample of loans to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. We tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. For allowances calculated on a collective basis, we tested the underlying models. We also tested the appropriateness and accuracy of the inputs to those models, such as probability of default and loss given default rates, and where available, compared data and assumptions made to external benchmarks. Finally, we understood and tested the controls over related disclosures.

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Key Audit Matter	How the matter was addressed in the audit
Valuation of Pension Fund Obligations Defined benefit pension plan that the Bank provides to its employees is managed by Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı and T.C. Ziraat Bankası ve T. Halk Bankası Çalışanları Emekli Sandığı Vakfı ("Plan") which were established by the 20th provisional article of the Social Security Law numbered 506 ("Law"). As disclosed in the Note 4.22 to the consolidated financial statements, the Plan is composed of benefits which are subject to transfer to the Social Security Foundation ("SSF") as per the Social Security Law no.5510 provisional article 20, and other social rights and pension benefits provided by the Bank that are not transferable to the SSF. The Council of Ministers has been authorized to determine the transfer date. Following the transfer, the funds and the institutions that employ the funds' members will cover the non-transferable social rights and pension benefits provided under the Plan. As of 31 December 2017, the Bank's transferrable liabilities are calculated by an independent actuary using the actuarial assumptions regulated by the Law, and in accordance with the Decision of the Council of Ministers announced in the Official Gazette dated 30 November 2006 and No.11345. The valuation of the Plan liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, inflation levels, demographic assumptions, and the impact of changes in the Plan. Management uses expert opinion of the independent actuary in assessing uncertainties related to these underlying assumptions and estimates. As described in Note 26 considering the subjectivity of key judgments and assumptions, plus the uncertainty around the transfer date and basis of the transfer calculation given the fact that the technical interest rate is prescribed under the Law, we considered this a key audit matter.	Our audit work included the following procedures: • We involved external experts (actuary) in our audit team to evaluate the assumptions used in the calculation of the pension obligations and the appropriateness of the estimates. • It has been tested whether the plan assets meet plan obligations in accordance with the methods and assumptions used. • In addition, reconciliations and tests were carried out through sampling of the accuracy of the data provided to the Bank's actuary. • We have assessed whether there is a significant change in the actuarial assumptions, methods, legal regulations and legislation used in the calculations and whether the assumptions are reasonable.

Key Audit Matter	How the matter was addressed in the audit

Information Technologies Audit
 	
The Group and its finance functions are dependent on the IT-infrastructure for the continuity of its operations, and the demand for technology-enabled business services is rapidly growing in the Group and its subsidiaries. Controls over reliability and continuity of the electronic data processing are within the scope of the information systems internal controls audit. The reliance on information systems within the Group means that the controls over access rights, continuity of systems, privacy and integrity of the electronic data are critical and found to be key area of focus as part of our risk based scoping.
	Procedures within the context of our information technology audit work:
	
	• We identified and tested the Group' controls over information systems as part of our audit procedures.
	
	• Information generation comprise all layers of information systems including applications, networks, transmission systems and database. The information systems controls tested are categorized in the following areas:
	  • Manage security
	  • Manage changes
	  • Manage operations
	
	• We selected high-risk areas as, database logging and change management control activities, to prevent and detect whether accesses to financial data had been identified in a timely manner.
	
	• We tested the accesses and logging controls underlying all applications that have direct or indirect impacts on financial data generation.
	
	• Automated controls and integration controls are tested to underly and detect changes and accesses in the process of financial data generation.
	
	• We also tested the appropriateness and accuracy of the information produced by the entity and information used in controls reports as inputs to our controls and outputs generated by the IT components.
	
	• Finally, we understood and tested the controls over database, network, application and operating system layers of applications.

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Other Matters

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on 28 April 2017.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hasan Kılıç.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Hasan Kılıç
Partner

İstanbul, 30 April 2018

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Financial Position
As at 31 December 2017
(Currency-In thousands of Turkish Lira (“TL”))

	Notes	**31 December 2017**	**31 December 2016**
Assets			
Cash on hand	*8*	2.208.138	1.543.129
Balances with Central Bank	*9*	17.658.013	11.268.177
Reserve deposits at Central Bank	*9*	16.815.227	17.400.661
Due from banks	*10*	7.602.135	3.037.247
Financial assets at fair value through profit or loss		483.494	449.224
- Trading securities	*11*	*120.563*	*89.115*
- Derivative financial instruments	*27*	*362.931*	*360.109*
Collaterals of borrowed securities	*29*	10.000.429	-
Loans and advances	*12*	205.032.373	158.898.373
Insurance premium receivables	*13*	731.825	391.236
Investment securities:		39.689.350	33.826.855
- Available-for-sale investment securities	*11*	*17.702.251*	*15.482.229*
- Held-to-maturity investment securities	*11*	*21.987.099*	*18.344.626*
Investment in equity-accounted investees	*14*	357.755	286.103
Finance lease receivables	*15*	2.514.554	2.144.498
Property and equipment	*16*	3.746.279	3.260.536
Intangible assets	*17*	145.166	115.548
Non-current assets held for sale	*18*	533	1.280
Investment property	*19*	910.378	864.116
Deferred tax assets	*25*	465.405	440.540
Other assets	*20*	2.992.980	2.726.076
Total assets		**311.354.034**	**236.653.599**
Liabilities			
Deposits from banks	*21*	19.214.698	22.860.211
Deposits from customers	*21*	174.038.081	127.529.857
Obligations under repurchase agreements	*22*	4.348.200	10.844.612
Loan and advances from banks	*23*	22.783.118	23.928.919
Interbank money market borrowings	*24*	30.655.122	8.177.524
Derivative financial instruments	*27*	150.673	224.593
Debt securities issued	*28*	12.008.923	12.744.316
Borrowed securities	*29*	10.000.429	-
Subordinated liabilities	*28*	1.004.385	-
Insurance contract liabilities	*13*	2.479.385	1.666.823
Provisions	*26*	1.352.531	1.252.756
Income tax payables	*25*	195.638	64.610
Deferred tax liability	*25*	574.170	288.974
Other liabilities	*26*	6.236.132	5.062.980
Total liabilities		**285.041.485**	**214.646.175**
Equity			
Share capital	*30*	2.578.184	2.578.184
Share premium		39.737	39.737
Reserves	*31*	3.553.194	2.987.862
Retained earnings	*31*	19.931.310	16.188.483
Total equity attributable to equity holders of the Bank		**26.102.425**	**21.794.266**
Non-controlling interests		210.124	213.158
Total equity		**26.312.549**	**22.007.424**
Total liabilities and equity		**311.354.034**	**236.653.599**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017
(Currency-In thousands of Turkish Lira ("TL"))

	Notes	1 January - 31 December 2017	1 January - 31 December 2016
Interest income:			
-Interest income on loans		19.060.838	14.307.861
-Interest income on securities		3.767.324	2.571.403
-Interest income on finance leases		197.704	158.434
-Interest income on deposits at banks		390.202	171.744
-Interest income on other money market placements		57.090	703
-Other interest income		194.806	153.062
		23.667.964	**17.363.207**
Interest expense:			
-Interest expense on deposits		(11.084.754)	(8.051.221)
-Interest expense on other money market deposits		(2.719.811)	(798.909)
-Interest expense on borrowings		(540.285)	(484.839)
-Interest expense on debt securities issued		(843.743)	(589.250)
-Other interest expense		(117.289)	(88.558)
		(15.305.882)	**(10.012.777)**
Net interest income		**8.362.082**	**7.350.430**
Fees and commission income	*36*	2.506.800	1.740.139
Fees and commission expenses	*36*	(585.666)	(502.036)
Net fee and commission income		**1.921.134**	**1.238.103**
Net trading income from securities		35.077	20.281
Net trading income / (loss) from derivative financial instruments		(195.718)	11.158
Foreign exchange gain / (losses), net		239.266	151.515
Net impairment losses on financial assets		(1.115.114)	(1.644.992)
Income from insurance operations		1.469.041	1.293.068
Cost of insurance operations		(1.167.182)	(1.170.476)
Dividend income		11.639	37.986
Other operating income	*34*	381.695	422.274
Other operating expenses	*35*	(4.712.481)	(4.000.048)
Operating profit		**5.229.439**	**3.709.299**
Share of profit of equity-accounted investees		21.511	17.309
Profit before income tax		**5.250.950**	**3.726.608**
Income tax charge	*25*	(1.065.528)	(708.350)
Profit for the year		**4.185.422**	**3.018.258**
Other comprehensive income			
Items that will be never classified to profit or loss:			
Re-measurement of employee termination benefits		14.073	17.765
Revaluation differences of property and equipment		285.864	434.347
Related tax		(142.311)	(25.270)
Items that are or may be reclassified subsequently to profit or loss:			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		171.619	(462.580)
Net amount transferred to profit or loss		(38.564)	(21.586)
Foreign currency translation differences		(4.311)	43.912
Related tax		92.102	6.369
Other comprehensive income for the year, net of tax		**378.472**	**(7.043)**
Total comprehensive income for the year		**4.563.894**	**3.011.215**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

(Currency-In thousands of Turkish Lira ("TL"))

	Notes	**1 January - 31 December 2017**	**1 January - 31 December 2016**
Profit attributable to:			
Equity holders of the Bank		4.172.937	3.012.408
Non-controlling interests		12.485	5.850
Profit for the year		**4.185.422**	**3.018.258**
Total comprehensive income attributable to:			
Equity holders of the Bank		4.552.099	2.999.483
Non-controlling interests		11.795	11.732
Total comprehensive income for the year		**4.563.894**	**3.011.215**
Basic earnings per share (full TL per share)	*32*	**3,3383**	**2,4099**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the year ended 31 December 2017
(Currency-In thousands of Turkish Lira ("TL"))

		Total equity attributable to equity holders of the Bank							
				Reserves					
	Notes	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2016		**2.578.184**	**39.488**	**(290.301)**	**3.131.364**	**13.652.154**	**19.110.889**	**201.426**	**19.312.315**
Total comprehensive income for the year									
Net profit of the period		-	-	-	-	**3.012.408**	**3.012.408**	**5.850**	**3.018.258**
Other comprehensive income, net of tax									
Re-measurement of employee termination benefits		-	-	-	-	14.212	14.212	-	**14.212**
Fair value reserve (available-for-sale financial assets):									
Net change in fair value		-	-	(412.211)	(65.764)	-	(477.975)	47	**(477.928)**
Net amount transferred to profit or loss		-	-	(21.586)	-	-	(21.586)	-	**(21.586)**
Revaluation differences of property and equipment		-	-	-	434.347	-	434.347	-	**434.347**
Foreign currency translation differences		-	-	-	43.768	-	43.768	144	**43.912**
Total other comprehensive income		**-**	**-**	**(433.797)**	**412.351**	**14.212**	**(7.234)**	**191**	**(7.043)**
Total comprehensive income for the year				**(433.797)**	**412.351**	**3.026.620**	**3.005.174**	**6.041**	**3.011.215**
Transactions with the owners, recorded directly in equity									
Transfers to other reserves	*31*	-	-	-	168.405	(253.476)	(85.071)	-	**(85.071)**
Dividends to equity holders	*31*	-	-	-	-	(238.603)	(238.603)	-	**(238.603)**
Changes in ownership interests in subsidiaries									
Change in non-controlling interests without a change in control		-	249	-	(160)	1.788	1.877	5.691	**7.568**
Balances at 31 December 2016		**2.578.184**	**39.737**	**(724.098)**	**3.711.960**	**16.188.483**	**21.794.266**	**213.158**	**22.007.424**
Balances at 1 January 2017		**2.578.184**	**39.737**	**(724.098)**	**3.711.960**	**16.188.483**	**21.794.266**	**213.158**	**22.007.424**
Total comprehensive income for the year									
Net profit of the period		-	-	-	-	**4.172.937**	**4.172.937**	**12.485**	**4.185.422**
Other comprehensive income, net of tax									
Re-measurement of employee termination benefits		-	-	-	-	11.258	11.258	-	**11.258**
Fair value reserve (available-for-sale financial assets):									
Net change in fair value		-	-	149.731	115.265	-	264.996	(1.275)	**263.721**
Net amount transferred to profit or loss		-	-	(38.564)	-	-	(38.564)	-	**(38.564)**
Revaluation differences of property and equipment		-	-	-	146.368	-	146.368	-	**146.368**
Foreign currency translation differences		-	-	-	(4.896)	-	(4.896)	585	**(4.311)**
Total other comprehensive income		**-**	**-**	**111.167**	**256.737**	**11.258**	**379.162**	**(690)**	**378.472**
Total comprehensive income for the year		**-**	**-**	**111.167**	**256.737**	**4.184.195**	**4.552.099**	**11.795**	**4.563.894**
Transactions with the owners, recorded directly in equity									
Transfers to other reserves	*31*	-	-	-	198.610	(213.604)	(14.994)	-	**(14.994)**
Dividends to equity holders	*31*	-	-	-	-	(255.827)	(255.827)	(757)	**(256.584)**
Changes in ownership interests in subsidiaries									
Change in non-controlling interests without a change in control		-	-	-	(1.182)	28.063	26.881	(8.139)	**18.742**
Other		-	-	-	-	-	-	(5.933)	**(5.933)**
Balances at 31 December 2017		**2.578.184**	**39.737**	**(612.931)**	**4.166.125**	**19.931.310**	**26.102.425**	**210.124**	**26.312.549**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Cash Flows
For the year ended 31 December 2017
(Currency-In thousands of Turkish Lira ("TL"))

	Notes	**1 January - 31 December 2017**	**1 January - 31 December 2016**
Cash flows from operating activities			
Profit for the year		4.185.422	3.018.258
Adjustments for:			
Depreciation and amortisation	*35*	178.943	224.184
Net impairment loss on loans and advances	*12*	1.731.696	1.657.460
Net interest income		(8.362.082)	(7.350.430)
Dividend income		(11.639)	(37.986)
Provision for employee termination benefits	*35*	98.844	83.672
Impairment losses on property and equipment		-	9.032
Net gain on sale of property and equipment	*34*	(112.134)	(129.232)
Share of profit of equity-accounted investees		(21.511)	(17.309)
Income tax expense	*25*	1.065.528	708.350
		(1.246.933)	**(1.834.001)**
Change in financial assets at fair value through profit or loss		(31.389)	(3.080)
Change in due from banks		22.540	(26.657)
Change in loans and advances		(46.260.521)	(32.478.568)
Change in other assets		(2.028.911)	(3.414.582)
Change in deposits from banks		(3.603.141)	15.052.270
Change in deposits from customers		45.457.843	12.675.136
Change in loans and advances from banks		(1.527.805)	(554.361)
Change in other liabilities		17.670.819	11.057.581
Interest received		21.730.125	16.611.483
Dividends received		11.639	37.986
Interest paid		(14.302.974)	(9.495.583)
Income tax paid		(541.969)	(883.058)
Employee termination benefits paid	*26*	(41.125)	(49.769)
Net cash provided from / (used in) operating activities		**15.308.198**	**6.694.797**
Cash flows from investing activities			
Acquisitions of subsidiaries		(14.994)	(3.213)
Acquisitions of available-for-sale investment securities		(9.672.067)	(6.118.249)
Proceeds from sale of available-for-sale investment securities		7.909.271	3.102.821
Acquisitions of held to maturity investment securities		(4.893.951)	(4.254.198)
Proceeds from sale of held to maturity investment securities	*11*	2.476.081	2.712.189
Acquisition of property and equipment	*16*	(551.943)	(269.671)
Proceeds from the sale of property and equipment		199.879	51.558
Acquisition of intangible assets	*17*	(89.366)	2.608
Net cash provided from / (used in) investing activities		**(4.637.090)**	**(4.776.155)**
Cash flows from financing activities			
Proceeds from issue of debt securities		9.216.726	10.667.444
Repayment of debt securities		(8.936.020)	(7.097.144)
Dividends paid	*31*	(256.584)	(238.603)
Net cash provided from / (used in) financing activities		**24.122**	**3.331.697**
Net increase / (decrease) in cash and cash equivalents		10.695.230	5.250.339
Cash and cash equivalents at 1 January		15.530.597	8.855.902
Effect of change in currency rate fluctuations on cash held		897.165	1.424.356
Cash and cash equivalents at 31 December	*37*	**27.122.992**	**15.530.597**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

Türkiye Halk Bankası Anonim Şirketi and its subsidiaries

Notes to the consolidated financial statements:

1. Activities of the Bank and the Group

Türkiye Halk Bankası AŞ (the "Bank") was incorporated in Turkey in 1933 as a state economic enterprise established under law no. 2284. As of 31 December 2017, the Bank operates with 969 branches, including 963 domestic branches and 6 foreign branches that are 5 in Cyprus and 1 in Bahrain. Domestic Branches include 29 satellite branches. There are three representative office in Iran, England and Singapure. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consists of banking, securities, financial leasing, factoring services, brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Sigorta AŞ, Halk Hayat ve Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD, Skopje, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Faktoring AŞ, Halkbank A.D., Beograd, Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ. and Halk Varlık Kiralama A.Ş.

In 2000, the Turkish Parliament passed Statute 4603, pursuant to which state-owned banks were required to restructure its operations and prepare themselves to eventual privatization. According to the Decree number 2006/69, dated as 11 August 2006 issued by Privatization High Council, all outstanding shares of the Bank were transferred to the Privatization Administration and 99,9% of the Bank shares sold to general public.

The first phase of the privatization process of the Bank corresponding to 24,98% of the shares was completed in the first week of May 2007 and the Bank's shares have been traded on Borsa Istanbul AŞ ("Borsa Istanbul" or "BIST") as of 10 May 2007.

The second phase of the privatization process of the Bank corresponding to 23,92% of the shares that were previously held by the Privatization Administration was completed on 21 November 2012 and after the second public offering and privatization, the 48,90% of the Bank shares have been traded on BIST.

The shares belonging to the T.C. Prime Ministry Privatization Administration were transferred to the Türkiye Varlık Fonu on 10 March 2017 pursuant to the Decree of the Higher Council for Privatization No. 2017/1 dated 3 February 2017.

In November 2004, the Bank merged with Pamukbank Türk Anonim Şirketi ("Pamukbank"), integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Halk Sigorta AŞ, a property, health and casualty insurance company, Halk Hayat ve Emeklilik AŞ, a life insurance company and Halk Yatırım Menkul Değerler AŞ, an equity brokerage services company.

The Bank established Halk Gayrimenkul Yatırım Ortaklığı AŞ ("Halk GYO") in 2010. Halk Gayrimenkul Yatırım Ortaklığı AŞ's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. Its main operative target is, based on the Capital Markets Board's ("CMB") regulation regarding the real estate investment trusts, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates. 28% shares of Halk GYO started to be traded on BIST at 22 February 2013.

Halk Finansal Kiralama AŞ ("Halk Leasing"), was an associate of the Bank with 47,75% of the shares and accounted for according to the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group's equity interest in Halk Leasing has increased from 47,75% to 99,99%. Halk Leasing was established in September 1991 in Turkey and operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD Skopje has taken over Ziraat Banka AD Skopje which was a subsidiary of Turkish state bank that operating in Macedonia, through the merger as of 1 October 2012. As a result, the Group's equity interest in Halk Banka AD, Skopje has increased from 98,12% to 98,78% and as at 31 December 2016 it is 99,03%. Halk Banka AD, Skopje is operating in the Republic of Macedonia. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services.

1. Activities of the Bank and the Group (continued)

Halk Portföy Yönetimi AŞ ("Halk Portföy"), a subsidiary of the Bank established in 2011, was registered on 30 June 2011. Halk Portföy's main line of business is to provide portfolio and fund management services.

Halk Faktoring AŞ ("Halk Faktoring"), a subsidiary of the Bank established in 2012, was registered on 6 June 2012. Halk Faktoring's main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operations.

Halk Yatırım Menkul Değerler AŞ ("Halk Yatırım"), was set up in 1997 to carry out capital markets activities, to purchase and sell capital markets instruments, and to execute stock exchange transactions. The company became a subsidiary in early 2006 when Halkbank bought the shares of Türkiye Halk Bankası Personnel Provident Fund.

The Bank obtained the control of Halkbank AD, Beograd by acquiring 76,76% of the shares and voting interests of the company as of 28 May 2015. Its main activities include commercial lending, accepting deposits, foreign exchange transactions, and payment operation services in the country and abroad and retail banking services. On the date of 24 November 2015 Bank's share has increased into 82,47% by the increase of its capital. As of 31 December 2017, The Bank paid TL 14.894 for 17,42% shares of Halkbank A.D. Beograd and increased its shareholding 99,89%.

Bileşim Alternatif Dağıtım Kanalları AŞ ("Bileşim AŞ"), a subsidiary of the Bank established in 1998. As of 22 July 2013, the Bank purchased 76% shares of Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. which was the associate of the Bank, from Ziraat Group (the shares of T.C. Ziraat Bank A.Ş. was 61%, the shares of Ziraat Finansal Kiralama A.Ş. was 15%) and thus the company became the Bank's subsidiary. Bileşim AŞ's main line of business is to provide ATM operations, call center services, merchant operations and printing office operations to domestic and international customers.

Halk Varlık Kiralama A.Ş. ("Halk Varlık") was established on 3 October 2017 with the purpose of issuing "Lease Certificate" in accordance with the Capital Markets Board Law No. 6362, the CMB Communiqué and the related regulations of the CMB.

2. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The consolidated financial statements were authorised for issue by the Board of Directors on 30 April 2018.

3. Basis of preparation

These consolidated financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose, available-for-sale investment securities whose fair value can reliably be measured and buildings whose fair value can reliably be measured by an independent appraiser.

3.1. Use of judgement and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, 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.

3. Basis of preparation (continued)

3.1. Use of estimates and judgements (continued)

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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 4.8 – *financial assets and financial liabilities*.

Investments in equity securities were evaluated for impairment on the basis described in Note 4.8 – *financial assets and financial liabilities*.

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.

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 judgement 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 Note 4.8 – *financial assets and financial liabilities*.

The Group measures fair values using the fair value hierarchy which is disclosed in Note 5 – *financial risk management*.

Financial asset and liability classification

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

- In classifying financial assets or liabilities as 'trading', the Group has determined that it meets the description of trading assets and liabilities set out in Note 4.10.

- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 4.12.

3.2. Functional and presentation currency

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). The functional currency of the Bank's foreign subsidiaries is the respective local currency. Until 31 December 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which 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 the corresponding figures for previous periods be restated in the same terms.

4. Significant accounting policies

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

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

4.1. Basis of consolidation

Subsidiaries

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

Subsidiaries are the entities controlled by the Parent Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Parent Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Companies where the Bank exercises significant influence, but do not have operating and financial 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.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.1. Basis of consolidation (continued)

Subsidiaries (continued)

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

	Place of incorporation	Direct ownership		Indirect ownership	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	94,33%	93,59%
Halk Hayat ve Emeklilik AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96%	99,96%	99,96%	99,96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	79,33%	79,33%	79,36%	79,36%
Halk Finansal Kiralama AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Banka AD, Skopje	Skopje	99,03%	99,03%	99,03%	99,03%
Halk Portföy Yönetimi AŞ	Istanbul	75,00%	75,00%	99,99%	99,99%
Halk Faktoring AŞ	Istanbul	97,50%	97,50%	100,00%	99,99%
Halk Banka A.D. Beograd	Beograd	99,89%	82,47%	99,89%	82,47%
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Varlık Kiralama A.Ş.(*)	Istanbul	100,00%	-	100,00%	-

(*) Established with TL 100.000 (full TL) capital as a subsidiary of the Parent Bank, Halk Varlık Kiralama A.Ş. was registered with the Turkish Trade Registry on 3 October 2017.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus
  if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.1 Basis of consolidation (continued)

Investments in associates (equity-accounted investees) (continued)

The equity-accounted associates of the Group as of 31 December 2017 and 31 December 2016 are as follows:

	Place of incorporation	Shareholding interest	
		31 December 2017	31 December 2016
Demir-Halk Bank NV	Rotterdam	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%
Türk P ve I Sigorta AŞ	Istanbul	16,67%	16,67%

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

4.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The Group started to apply fair value hedge accounting as at 1 July 2015 by designating the exchange rate risk of Halkbank AD, Beograd, Demirhalkbank NV and Halkbank AD, Skobje are foreign investments that are recognized under fair value accounting as hedged item, in compliance with "IAS 39 Financial Instruments: Recognition and Measurement". Accordingly, the effective portion of the foreign exchange differences is recorded under equity in the current period.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.2 Foreign currency (continued)

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

As at 31 December 2017 and 31 December 2016, foreign currency assets and liabilities of the Group are mainly in US Dollar ("USD") and EUR. The TL/USD and TL/EUR exchange rates as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	Period end	**Average**	**Period end**	**Average**
TL / USD	3,7900	3,6261	3,5100	3,4766
TL / EUR	4,5465	4,0942	3,6974	3,6637

4.3 Interest

Interest income and expenses are recognised in the profit or loss using the effective interest method except for the interest income on overdue loans. 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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are 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 expenses presented in the consolidated statement of income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis,
- interest on available-for-sale investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

4.4 Fees and commission

Commissions received from financial assets are recognised on an effective rate basis over the contractual period and unearned part is presented in other liabilities.

Commissions given for financial liabilities are recognised on a straight-line basis over the contractual period and prepaid part is presented in other assets.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business are recognised 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 recognised on a straight-line basis over the commitment period.

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

4.5 Net trading income

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

4. Significant accounting policies (continued)

4.6 Dividends

Dividend income is recognised when the right to receive the income is established.

4.7 Income tax charge

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised 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 utilised. 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 realised.

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

4.8 Financial assets and financial liabilities

Recognition

The Group initially recognises loans and advances, deposits, obligations under repurchase agreements, loans and advances from banks and interbank money market borrowings on the date which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date on which the Group commits to purchase or sell the asset. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

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.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when its contractual obligations are discharged or cancelled or expired.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate 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 realise 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.

Amortised cost measurement

Amortised cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Fair value measurement

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment

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

Assets carried at amortised cost

In determining whether an impairment loss should be recorded profit or loss, the Group makes judgements 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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: (i) adverse changes in the payment status of borrowers; or (ii) national or local economic conditions that correlate with defaults on the assets in the group.
- All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

Assets carried at amortised cost (continued)

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured based on the difference between the asset’s carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the loan’s original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realised 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 recognised in profit or loss.

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 recognised 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 (i.e., on the basis of the Group’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Group 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.

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

Assets carried at fair value

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

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

4. Significant accounting policies (continued)

4.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, unrestricted balances held with central banks and highly liquid financial original maturities of less than three months, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

4.11 Loans and advances

Loans and advances 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 or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortised cost using the effective interest method less any impairment in value. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest earned on such loans and receivables is reported as interest income.

4.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Group for classifying investment securities as held-to-maturity for the current and the following two financial years. There has been no tainting in the held-to-maturity portfolio during 2017 and 2016.

Held to maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment in value.

Interest earned whilst holding held to maturity securities is reported as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortised cost. Any previous gain or losses on those assets that have been recognised in equity are amortised over the remaining life of the held-to-maturity investments using the effective interest method.

4. Significant accounting policies (continued)

4.12 Investment securities (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as another category of financial assets. After initial recognition, available for sale financial assets are measured at fair value. Quoted equity securities and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Gains or losses on re-measurement to fair value are recognised as a separate component of equity until the instrument is derecognised, or until the instrument is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss, however interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

4.13 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 recognised. The amounts paid are recognised 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 recognised 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 recognised on an accruals basis over the period of the transaction and are included in "interest income" or "interest expenses".

4.14 Property and equipment

Recognition and measurement

Items of property, plant and equipment except for lands and buildings which are measured at fair value, are measured at cost less accumulated depreciation and any accumulated impairment losses. Beginning from the second quarter of 2015, the Group, has changed its accounting policy for lands and buildings from historical cost method to revaluation method for the lands and buildings. Buildings are stated at fair value as of revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within the other operating income or other operating expenses in profit or loss.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognised in profit or loss.

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.14 Property and equipment (continued)

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Buildings	50 years
Other movable tangible assets	3 – 25 years
Leasehold improvements	4 – 5 years
Safe-deposit boxes	50 years

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

Derecognition

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

4.15 Investment property

Properties held for long term rental yields or value increase or both, rather than administrative purposes or for the sale in the ordinary course of business are classified as "Investment property" which are measured at fair value. Beginning from the third quarter of 2015, accounting policy has changed to fair value method in accordance with "IAS 40 Investment Property". In subsequent periods, profit or loss due to the revaluation of fair value of investment property are accounted for under current period's profit or loss. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of an item) is recognized in profit or loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

4.16 Intangible assets

Intangible assets acquired

Intangible assets acquired separately before 1 January 2006 are carried at restated cost for the effects of inflation in TL units current at 31 December 2005 less accumulated amortisation and impairment losses, and items of intangible assets acquired after 1 January 2006 are carried at acquisition cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The related costs are amortised at between 3 and 5 years based on their economic lives.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

4. Significant accounting policies (continued)

4.17 Non-current assets held for sale

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

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

4.18 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 then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that one not yet available for use, the recoverable amount is estimated each year at the same time.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised 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 amortisation, if no impairment loss had been recognised.

4.19 Leases

The Group as the lessee

<u>Operating leases</u>

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.

<u>Finance leases</u>

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.

4. Significant accounting policies (continued)

4.19 Leases (continued)

The Group as the lessor

Operating leases

Assets leased out under operating leases are included in investment property in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the consolidated statement of income on a straight-line basis over the lease term.

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 recognised.

4.20 Financial liabilities

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

Financial liabilities are classified as either equity instruments or other financial liabilities.

Equity instruments

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

Other financial liabilities

Other financial liabilities, including borrowings and deposits are the Group's sources of debt funding.

Borrowings and deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

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

4.21 Provisions

A provision is recognised 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 recognised 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.

4. Significant accounting policies (continued)

4.22 Employee benefits

Defined benefit plans

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

Such defined benefit plan is unfunded since there is no funding requirement in Turkey. The cost of providing benefits under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in other comprehensive income.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 26 are reviewed regularly. The carrying value of employee termination benefit provisions as of 31 December 2017 is TL 497.405 (31 December 2016: TL 421.497).

Defined contribution plans

The foundations, Türkiye Halk Bankası AŞ Employee Pension Fund and T.C. Ziraat Bankası and T. Halk Bankası Employee Pension Fund, that the employees of the Bank are a member, were founded in accordance with the provisional article 20 of the Social Security Law numbered 506 ("Law"). Provisional article 23 of the Banking Act No: 5411 requires the Bank's pension funds founded in the scope of Law to be transferred to the Social Security Foundation ("SSF") within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers' decision dated 30 November 2006 and numbered 2006/11345. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Grand National Assembly of Turkey ("GNA") started to work on establishing new legal regulations; and after, the "Law Regarding the Amendments to the Social Security and General Health Insurance Act and Certain Laws and Decree Laws" numbered 5754 which was published on the Official Gazette dated 8 May 2008 and numbered 26870 approved at the General Assembly of the GNA and came into effect. The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the SSF and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three-year transfer period can be prolonged for maximum 2 years by the Council of Ministers' decision. Related transfer period has been prolonged for 2 years by the Council of Ministers' decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law numbered 6283 "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years.

The statement "The Council of Ministers have entitled to determine transfer period" has taken place in the scope of the Article 51 of the Law No: 6645 which was published on the Gazette on 23 April 2015 and numbered 29335.

4. Significant accounting policies (continued)

4.22 Employee benefits (continued)

Defined contribution plans (continued)

The members of the plan receive pension benefits on retirement, dependent on several factors such as age, years of service and compensation. The Group recognized the liability in the statement of financial position in respect to these plans equal to the present value of the defined benefit obligation at the balance sheet less the fair value of the assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the expected interest rates for Turkish Lira. The methodology included the calculation of the defined benefit obligation using 9,8% as a discount rate and inclusion of the present value of future employee contributions in plan assets. Based on the results of the actuarial report prepared as of 31 December 2017 and 31 December 2016, no technical deficit has been reported.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4.23 Insurance businesses

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.

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

Earned premiums: For short-term insurance contracts, premiums are recognised as revenue, net of premiums ceded to reinsurance firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognised 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 gross of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognised as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under income from insurance operations in the accompanying consolidated statement of profit or loss.

Premium received for an investment contract, is not recognised as revenue. Premiums for such contracts are recognised 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 insurance contract liabilities in the accompanying consolidated statement of financial position.

4. Significant accounting policies (continued)

4.23 Insurance businesses (continued)

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. In the accompanying consolidated financial statements, reserve for outstanding claims is presented by netting off amounts recoverable from reinsurers under insurance contract liabilities. 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. 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 insurance contract liabilities in the accompanying consolidated statement of financial position. 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, health and individual accident policies based on actuarial assumptions.

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 Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies.

Long term insurance contracts are presented under insurance contract liabilities in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognised 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 amortised 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 amortised 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.

4. Significant accounting policies (continued)

4.23 Insurance businesses (continued)

If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then 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.

Income generated from pension business: Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

4.24 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of income is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank.

4.25 Events after the reporting period

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

4.26 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.

4. Significant accounting policies (continued)

4.27 New standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting. IFRS 9 will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

The Group will apply the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, with no restatement of comparative periods.

As compared to the classification under IAS 39, the combined application of the contractual cash flows characteristics and business models of the financial instruments as at 1 January 2018 will have a negative effect on the Bank's equity amounting to TL 161.870.

Classification and measurement of financial assets:

According to IFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and interest (SPPI).

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVTPL"), amortized cost or fair value through other comprehensive income ("FVOCI"). As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under IAS 39.

Impairment of financial assets:

As of 1 January 2018, the Group will recognize provisions for impairment in accordance with the IFRS 9 requirements. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related standard as mentioned in the Note 4.8 of Significant Accounting Policies will be changed by applying the expected credit loss model under IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets will be divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

4. Significant accounting policies (continued)

4.27 New standards and interpretations not yet adopted (continued)

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

IFRS 15 Revenue from Contracts with customers

The standard replaces existing IFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognising revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The amendments clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

4. Significant accounting policies (continued)

4.27 New standards and interpretations not yet adopted (continued)

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

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

Annual Improvements to IFRSs 2014-2016 Cycle

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

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of 'Annual Improvements to IFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

IFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The directors of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

IFRS 17 Insurance Contracts

This new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

4. Significant accounting policies (continued)

4.27 New standards and interpretations not yet adopted (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

•Whether tax treatments should be considered collectively

•Assumptions for taxation authorities' examinations

•The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

•The effect of changes in facts and circumstances.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

This amendment amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Annual Improvements to IFRS Standards 2015–2017 Cycle

•IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

•IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.

•IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

5. Financial risk management

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of this matter reflecting the disciplined and prudent risk management culture of the Group. The Bank Risk Management supervises the risk management process of the Group.

The mission of Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit and Operational Risk. Market Risk includes interest rate, foreign exchange and price risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

5. Financial risk management (continued)

Credit risk

The Group manages its credit risk by limiting its risk. Under the risk management the Bank rates each of its loans given to customers (legal or real) and requires additional guarantees from its customers with high risk ratings, or does not provide loans to such customers, or applies strategies in order to decrease the level risk of such loan. The Group's credit risk is focused in Turkey where its main operations take place. During the loan application process, limits for product and customers are taken into consideration and these limits are controlled regularly. The related loan units within the Bank are responsible for defining limits for sectors and geographical regions.

The risks and limits attributable to banks and transactions with correspondent banks are followed up on a daily basis. Off balance sheet risk concentration on individual customers and banks are also followed up daily in cooperation with the Treasury Department.

Those loans which are renewed or restructured are traced not only according to their relevant regulations, but are also traced by the risk management process where they are re-considered for their credit group and weight. With these methods, new precautions are taken and loans that have longer maturities have greater credit risks than the short-term loans.

The credibility of the debtors of the Bank is assessed periodically in accordance with the Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Financial statements obtained for loans to be granted are audited as required by the related legislation. Loan limits are updated by the initiative of the Bank's Credit Committee and top management, as deemed necessary and in accordance with the changes in economic conditions. The Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of suretyships, mortgages on property, cash blockages and cheques.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans and recorded in the follow up accounts according to their collaterals.

The percentage of the top 100 cash loan clients of the Bank to the total loan portfolio is 24% (31 December 2016: 24,52%).

The percentage of the top 100 non-cash loan clients of the Bank to the total non-cash loan portfolio is 44,37% (31 December 2016: 46,43%).

The percentage of the total cash and non-cash loan balances of the top 100 clients to the total of assets and off-balance sheet items is 16,92% (31 December 2016: 17,58%).

Derivatives:

The Group maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

5. Financial risk management (continued)

Credit risk (continued)

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(Currency-In thousands of Turkish Lira ("TL"))

5. **Financial risk management** (continued)

Credit risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows:

	31 December 2017	
	Cash	**Non-cash(*)**
Agricultural	1.008.169	94.689
Farming and raising livestock	*901.319*	*41.547*
Forestry	*5.573*	*183*
Fishing	*101.277*	*52.959*
Manufacturing	47.991.754	21.228.408
Mining	*2.006.223*	*153.717*
Production	*37.597.392*	*17.724.175*
Electric, gas and water	*8.388.139*	*3.350.516*
Construction	16.245.943	16.776.444
Services	103.848.370	20.195.172
Wholesale and retail trade	*33.486.824*	*9.394.163*
Hotel, food and beverage services	*9.818.315*	*899.076*
Transportation and telecommunication	*13.227.196*	*2.051.476*
Financial institutions	*2.224.299*	*3.523.177*
Real estate and renting services	*41.328.358*	*3.947.795*
Self-employment services	*5.659*	*20.972*
Education services	*1.494.057*	*138.504*
Health and social services	*2.263.662*	*220.009*
Other	36.259.966	492.945
Total loans	**205.354.202**	**58.787.658**
Non-performing loans	6.296.406	-
Less: allowance for losses on loans and advances	(6.618.235)	-
Total	**205.032.373**	**58.787.658**

(*) As of 31 December 2017, allowance for losses on non-cash loans are TL 131.448.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows: (continued)

	31 December 2016	
	Cash	**Non-cash(*)**
Agricultural	737.384	65.096
Farming and raising livestock	*637.680*	*58.619*
Forestry	*4.171*	*199*
Fishing	*95.533*	*6.278*
Manufacturing	42.719.281	19.023.762
Mining	*1.623.897*	*206.722*
Production	*34.422.154*	*15.023.632*
Electric, gas and water	*6.673.230*	*3.793.408*
Construction	5.212.363	13.132.718
Services	55.234.527	15.175.175
Wholesale and retail trade	*25.130.879*	*7.201.479*
Hotel, food and beverage services	*7.912.879*	*261.998*
Transportation and telecommunication	*13.514.295*	*691.611*
Financial Institutions	*2.715.073*	*3.758.185*
Real estate and renting services	*3.010.773*	*3.023.650*
Self-employment services	*807.281*	*18.151*
Education services	*980.348*	*71.969*
Health and social services	*1.162.999*	*148.132*
Other	55.289.008	480.968
Total loans	**159.192.563**	**47.877.719**
Non-performing loans	5.320.512	-
Less: allowance for losses on loans and advances	(5.614.702)	-
Total	**158.898.373**	**47.877.719**

(*) As of 31 December 2016, allowance for losses on non-cash loans are TL 139.279.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Credit risk types according to sectors and geographical concentration:

Credit risk of the Group as of 31 December 2017 and 31 December 2016 is calculated and credit risk types according to sectors and geographical concentration are presented in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 29111 dated 6 September 2014 which is complaint to Basel III.

Sectoral breakdown of risk weighted assets is as follows:

	31 December 2017	**31 December 2016**
Agricultural	1.580.507	954.445
Farming and raising livestock	*955.084*	*769.653*
Forestry	*450.725*	*80.054*
Fishing	*174.698*	*104.738*
Manufacturing	73.774.993	58.082.221
Mining	*2.259.993*	*1.573.801*
Production	*61.112.745*	*47.834.950*
Electric, gas and water	*10.402.255*	*8.673.470*
Construction	17.741.804	12.843.361
Services	100.489.446	72.601.139
Wholesale and retail trade	*40.689.445*	*30.747.778*
Hotel, food and beverage services	*11.583.010*	*8.343.227*
Transportation and telecommunication	*14.954.621*	*14.146.495*
Financial institutions	*22.757.960*	*12.546.255*
Real estate and renting services	*5.444.398*	*3.418.541*
Self-employment services	*876.371*	*854.103*
Education services	*1.626.733*	*1.024.768*
Health and social services	*2.556.908*	*1.519.972*
Other	142.880.125	127.802.070
Total risk weighted assets	**336.466.875**	**272.283.236**

Information according to geographical concentration:

	31 December 2017	**31 December 2016**
Domestic	332.248.072	269.569.699
EU Countries	1.950.278	1.066.030
OECD Countries(*)	123.830	41.884
USA, Canada	582.612	230.788
Other countries	1.561.561	1.374.812
Investment and associates, subsidiaries and joint ventures	-	-
Off-shore banking regions	522	23
Total risk weighted assets	**336.466.875**	**272.283.236**

(*) OECD Countries other than the EU Countries, USA and Canada.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets:

Due from banks, financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities do not include overdue and individually impaired assets, as of 31 December 2017 and 31 December 2016.

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

31 December 2017	**Between 30 and 60 days**	**Between 61 and 90 days**	**Total**
Loans and advances	1.721.522	768.857	2.490.379
Total	**1.721.522**	**768.857**	**2.490.379**

31 December 2016	**Between 30 and 60 days**	**Between 61 and 90 days**	**Total**
Loans and advances	1.154.749	672.781	1.827.530
Total	**1.154.749**	**672.781**	**1.827.530**

	31 December 2017	**31 December 2016**
Loans and advances		
Agriculture	12.915	14.055
Manufacturing	784.706	569.819
Construction	119.290	118.552
Services	1.178.444	911.304
Others	395.024	213.800
Total	**2.490.379**	**1.827.530**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

As of 31 December 2017, the fair value of collaterals held against the past due but not yet impaired loans amounts to TL 5.128.482. The net value and type of the collaterals is as follows:

Collateral type [1]	31 December 2017	31 December 2016
Real estate mortgage	3.127.124	3.286.676
Suretyships	808.779	881.394
Salary pledge, vehicle pledge and pledge of commercial undertaking	139.087	107.555
Cheque /bills	11.068	38.123
Financial collaterals (Cash, securities pledge, etc.)	1.671	2.418
Other	1.040.753	275.646
Total	**5.128.482**	**4.591.812**

[1] The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above. Income accruals are not included in the table.

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2017	31 December 2016
Loans and advances [1] [2]		
Corporate loans	2.513.301	2.568.586
SME loans	84	116
Consumer loans	28.070	8.924
Total	**2.541.455**	**2.577.626**

[1] Accruals are not included to the table above.

[2] Presents loans accounted for under restructured or rescheduled loan accounts.

Corporate and Commercial loans	Internal/External valuation grade	Total	Entrepreneur firms	Internal/External valuation grade	Total
Risk rating group 1	AAA	246.127	**High**		
Risk rating group 2	AA	1.388.254	Risk rating group 1	1	5.625.813
Risk rating group 3	A	6.222.082	Risk rating group 2	2	2.868.099
Risk rating group 4	BBB	13.294.661	**Standard**		
Risk rating group 5	BB	17.443.491	Risk rating group 3	3	3.024.723
Risk rating group 6	B	23.169.181	Risk rating group 4	4	3.784.141
Risk rating group 7	CCC	22.945.704	Risk rating group 5	5	5.046.065
Risk rating group 8	CC	1.289.684	**Below the standard**		
Risk rating group 9	C	75.754	Risk rating group 6	6	9.107.562
			Risk rating group 7	7	7.968.677
Total		**86.074.938**	**Total**		**37.425.080**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Risk grade (1-4)	Risk Group	Definition of risk group	Risk grade (%)
1,00 - 1,40	AAA	The firm is an extremely positive firm with its financial and non-financial criteria and it can pursue its high credibility in the long run.	100 -86
1,41 - 1,80	AA	The firm is a positive firm with its financial and non-financial criteria and it can pursue its high credibility in the long run.	85 -73
1,81 - 2,00	A	The firm that has performed its optimization and has a high credibility in the short run and is a credible firm in the medium run.	72 - 67
2,01 - 2,20	BBB	The firm is a credible firm despite the fact that it cannot perform the optimization certain aspects of its financial and non-financial criteria.	66 - 60
2,21 - 2,40	BB	The firm cannot retain optimization in the major parts of its financials and non-financial criteria. It has speculative attributes but it's a credible firm in the short run.	59 - 53
2,41 - 2,60	B	Some of the financial and non-financial criteria are negative. It carries highly speculative attributes. In the short run it is a credible firm dependent on the positive conjecture.	52 - 47
2,61 - 2,80	CCC	The major part of its financial and non-financial criteria is negative and the firm is having difficulties in meetings its commitments. But it has guaranteed short run credibility dependent on the positive conjecture.	46 - 40
2,81 - 3,20	CC	The firm force acceptable risk limits when it's financial and non-financial criteria considered together, and have poor credibility.	39 - 27
3,21 - 3,60	C	The firm has no credibility when its financial and non-financial criteria considered together	26 - 13
3,61 - 4,00	D	The firm has no credibility under any condition.	12 - 0

Entrepreneur Loans Decision Module ("ELDM") is the rating module which is used for assessment of loan applications of companies which are classified by the Bank as a small and medium sized enterprises (SME) Customers within the SME in ELDM are evaluated by both qualitative and quantitative characteristics of firm, the size of endorsement and requested amount of loan before bank creates score card forms for each customers. Score card which categorize firms according to their risk, includes 1 to 7 rating group and 1 has the lowest risk. Guarantees for companies that can be assessed by ELDM, converted into cash during the time it takes to prevent probable loss of value and the conversion process is divided into two main groups according to the criteria. The conversion of cash collateral to compensate for any losses in a margin, "Liquid Collateral Value" is referred to as the facility where the customer the amount of collateral to be determined by risk group, and the collateral value of the liquid.

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.

The similar agreements include derivative clearing agreements. Similar financial instruments 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.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Offsetting financial assets and financial liabilities (continued)

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 (including non-cash collateral)**	**Cash collateral received**	**Net amount**
31 December 2017	Derivatives - trading assets	362.931	-	362.931	-	66.553	296.378
31 December 2016	Derivatives - trading assets	360.109	-	360.109	-	41.172	318.937

					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 (including non-cash collateral)**	**Cash collateral pledged**	**Net amount**
31 December 2017	Derivatives - trading liabilities	150.673	-	150.673	-	104.613	46.060
31 December 2016	Derivatives - trading liabilities	224.593	-	224.593	-	53.980	170.613

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Liquidity risk

Liquidity risk occurs when there is not sufficient amount of cash or cash flows to meet the cash outflow needs completely and on time. Liquidity risk may also occur when the market penetration is not enough and when the open positions cannot be closed timely at competitive prices due to barriers and break-ups at the markets.

The Group uses domestic and foreign markets for its liquidity needs. Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (CBRT, ISE, Interbank money market, Settlement and Custody Bank and other markets). The Group has a lower ratio of the deposits compared to other banks with similar-sized positions; this indicates that larger loans can be obtained from the markets when needed. The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group’s fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investment securities and available for sale investment securities.

Analysis of non-derivative financial liabilities by remaining contractual maturities:

31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	138.695.766	38.658.365	14.982.260	931.101	18.141	193.285.633	193.252.779
Obligations under repurchase agreements	2.957.220	1.410.455	-	-	-	4.367.675	4.348.200
Loans and advances from banks	1.668.691	2.928.997	8.502.495	5.507.339	4.867.961	23.475.483	22.783.118
Interbank money market borrowings	-	30.655.122	-	-	-	30.655.122	30.655.122
Debt securities issued	829.636	2.347.213	340.952	9.247.008	-	12.764.809	12.008.923
Total	**144.151.313**	**76.000.152**	**23.825.707**	**15.685.448**	**4.886.102**	**264.548.722**	**263.048.142**

31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	114.023.770	25.757.529	10.529.290	614.505	11.011	150.936.105	150.390.068
Obligations under repurchase agreements	16.660.819	1.479.146	-	-	-	18.139.965	10.844.612
Loans and advances from banks	1.981.170	2.232.783	11.055.802	5.378.348	3.844.917	24.493.020	23.928.919
Interbank money market borrowings	-	8.177.524	-	-	-	8.177.524	8.177.524
Debt securities issued	333.042	1.090.794	3.801.556	8.920.337	-	14.145.729	12.744.316
Total	**132.998.801**	**38.737.776**	**25.386.648**	**14.913.190**	**3.855.928**	**215.892.343**	**206.085.439**

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Liquidity risk (continued)

Analysis of the Group’s derivative financial instruments according to their remaining maturities:

31 December 2017	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	3.341.667	1.451.710	1.521.700	-	-	6.315.077
Forward contracts – sell	1.501.366	663.002	1.518.340	-	-	3.682.708
Swaps – buy	2.063.721	-	387.590	859.442	-	3.310.753
Swaps – sell	2.061.605	-	379.000	605.440	-	3.046.045
Credit default swap – buy	-	-	-	-	-	-
Credit default swap – sell	-	-	-	-	-	-
Forward precious metal – buy	24.982	-	-	-	-	24.982
Forward precious metal – sell	1.896.450	808.986	-	-	-	2.705.436
Money buy options	239.927	2.822	697.462	-	-	940.211
Money sell options	239.926	2.822	697.462	-	-	940.210
Interest rate swap-buy	-	-	-	1.638.724	3.804.657	5.443.381
Interest rate swap-sell	-	-	-	1.638.724	3.804.657	5.443.381
Total	**11.369.644**	**2.929.342**	**5.201.554**	**4.742.330**	**7.609.314**	**31.852.184**

31 December 2016	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	1.118.830	2.504.618	875.467	232.448	-	4.731.363
Forward contracts – sell	1.118.179	467.553	874.715	230.950	-	2.691.397
Swaps – buy	1.775.843	264.926	159.192	656.768	-	2.856.729
Swaps – sell	1.781.941	263.813	158.953	560.998	-	2.765.705
Credit default swap – buy	-	-	-	-	-	-
Credit default swap – sell	-	-	-	-	-	-
Forward precious metal – buy	-	59.714	-	-	-	59.714
Forward precious metal – sell	-	2.121.975	-	-	-	2.121.975
Money buy options	307.574	32.550	-	-	-	340.124
Money sell options	307.584	32.545	-	-	-	340.129
Interest rate swap-buy	-	-	-	-	4.872.265	4.872.265
Interest rate swap-sell	-	-	-	-	4.872.265	4.872.265
Total	**6.409.951**	**5.747.694**	**2.068.327**	**1.681.164**	**9.744.530**	**25.651.666**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position:

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
31 December 2017								
Assets								
Cash on hand	2.208.138	-	-	-	-	-	-	2.208.138
Balances with and reserve deposits at Central Bank	146.881	34.253.174	-	73.185	-	-	-	34.473.240
Due from banks	1.455.160	6.049.714	78.154	19.107	-	-	-	7.602.135
Financial assets at fair value through profit or loss	7.035	202.848	110.736	10.152.858	8.764	27	1.655	10.483.923
Loans and advances[1]	550.645	12.823.844	14.033.807	60.612.055	90.269.846	27.064.005	-	205.354.202
Investments securities	534	588.077	257.639	3.339.115	14.875.079	20.546.734	82.172	39.689.350
Other assets	1.594.337	71.415	489.343	768.962	1.493.736	418.697	6.706.556	11.543.046
Total assets	**5.962.730**	**53.989.072**	**14.969.679**	**74.965.282**	**106.647.425**	**48.029.463**	**6.790.383**	**311.354.034**
Liabilities and equity								
Deposits from banks	3.813.689	13.102.252	2.084.086	213.579	1.092	-	-	19.214.698
Deposits from customers	25.499.905	99.176.766	34.202.985	14.315.698	821.461	18.123	3.143	174.038.081
Obligations under repurchase agreements	-	3.121.902	1.219.757	2.938	3.603	-	-	4.348.200
Loans and advances from banks	2.548	1.557.086	2.912.245	8.197.962	4.690.232	5.423.045	-	22.783.118
Interbank money market borrowings	-	30.655.122	-	-	-	-	-	30.655.122
Debt securities issued	-	808.898	2.584.804	104.683	8.510.538	-	-	12.008.923
Other liabilities[2]	584.063	3.555.226	71.604	15.749.576	1.999.448	523.813	25.822.162	48.305.892
Total liabilities and equity	**29.900.205**	**151.977.252**	**43.075.481**	**38.584.436**	**16.026.374**	**5.964.981**	**25.825.305**	**311.354.034**
Liquidity gap	**(23.937.475)**	**(97.988.180)**	**(28.105.802)**	**36.380.846**	**90.621.051**	**42.064.482**	**(19.034.922)**	**-**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders' equity is presented in the "undistributed" column.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position (continued):

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
31 December 2016								
Assets								
Cash on hand	1.543.129	-	-	-	-	-	-	1.543.129
Balances with and reserve deposits at Central Bank	3.386.645	25.176.361	-	50.714	-	-	55.118	28.668.838
Due from banks	1.018.395	1.858.032	134.163	12.343	-	-	14.314	3.037.247
Financial assets at fair value through profit or loss	2.751	172.808	70.385	170.324	29.069	792	3.095	449.224
Loans and advances [1]	2.485.967	11.694.182	10.466.532	48.738.850	66.096.047	19.710.985	-	159.192.563
Investments securities	-	882.001	1.695.180	2.805.678	11.078.101	17.304.673	61.222	33.826.855
Other assets	2.488.847	56.917	281.685	673.459	1.413.677	310.387	4.710.771	9.935.743
Total assets	**10.925.734**	**39.840.301**	**12.647.945**	**52.451.368**	**78.616.894**	**37.326.837**	**4.844.520**	**236.653.599**
Liabilities and equity								
Deposits from banks	7.867.130	12.234.408	2.374.878	383.795	-	-	-	22.860.211
Deposits from customers	21.570.217	72.711.721	23.202.394	9.445.077	589.593	10.855	-	127.529.857
Obligations under repurchase agreements	-	8.475.046	1.478.502	891.064	-	-	-	10.844.612
Loan and advances from banks	53	1.956.010	2.126.774	10.921.602	5.214.856	3.709.624	-	23.928.919
Interbank money market borrowings	-	-	8.177.524	-	-	-	-	8.177.524
Debt securities issued	-	323.378	1.052.183	3.493.383	7.875.372	-	-	12.744.316
Other liabilities [2]	505.203	3.099.970	127.192	1.998.219	1.240.359	1.802.951	21.794.266	30.568.160
Total liabilities and equity	**29.942.603**	**98.800.533**	**38.539.447**	**27.133.140**	**14.920.180**	**5.523.430**	**21.794.266**	**236.653.599**
Liquidity gap	**(19.016.869)**	**(58.960.232)**	**(25.891.502)**	**25.318.228**	**63.696.714**	**31.803.407**	**(16.949.746)**	**-**

[1] Non performing loans (net) are presented in other assets.

[2] Shareholders' equity is presented in the "undistributed" column.

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Liquidity risk (continued)

Net liquidity gap

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Market risk

In accordance with the Group’s risk management policy framework to avoid the effect of market risk, the Bank has determined the management activities and has taken necessary precautions within the framework of “Regulation on Measurement and Evaluation of Capital Adequacy of the Banks” published in Official Gazette numbered 29111 on 6 September 2014.

The Bank’s Board of Directors set the risk limits by taking into account the Group’s main risk factors and those limits are periodically revised in accordance with the market conditions and the Group’s strategies. Furthermore, the Board of Directors ensure that, the necessary measures to be taken by risk management department and all other executives in respect of defining, measuring, monitoring and managing the risks exposed by the Group. The Value at Risk (“VaR”) based limits that are determined by the Board of Directors and the denominated interest rate risk of the Group is limited to certain percentage of the shareholders’ equity.

In accordance with “Regulation on Measurement and Evaluation of Capital Adequacy of the Banks”, the Group’s possibility of loss that may cause due to the general market risk, currency risk, specific risk, commodity risk, clearing risk and counterparty credit risk is calculated by using the standard method.

The Value at Risk (VaR) that is calculated by using internal model methods besides standard method is validated by scenario analysis and stress tests. The VaR is calculated daily by using historical simulation and parametric approach and the results are reported the executives of the Bank.

The Group’s average market risk calculated as of the end of months in the related periods is as follows:

	31 December 2017			**31 December 2016**		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest rate risk	160.610	222.004	102.924	345.492	405.698	76.003
Share risk	9.464	17.056	7.976	18.128	26.456	11.998
Currency risk	126.586	274.400	94.233	39.465	66.239	25.500
Commodity risk	-	-	-	-	-	-
Settlement risk	-	-	-	-	-	-
Options risk	7.741	24.445	925	2.747	5.036	462
Amount subject to total risk	**304.401**	**537.905**	**206.058**	**405.832**	**503.429**	**113.963**

Currency risk

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account. Net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Currency risk (continued)

The Group's exposure to foreign currency risk is limited. However, possible foreign currency risks are calculated in foreign currency risk table in the frame of the standard method weekly and monthly as to follow up the foreign currency risk periodically. When deemed necessary, foreign currency swap transactions are made with the banks.

Foreign currency sensitivity:

The Group is mainly exposed to EUR and USD currency risk.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against USD, EUR and other foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

Change in currency rate		Effect on profit / loss	
		2017	**2016**
USD	10% increase	(13.617)	8.980
EUR	10% increase	(36.471)	(30.035)
Other	10% increase	57.344	26.592

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	EUR	**USD**	**Other FC**	**Total**
31 December 2017				
Assets				
Cash on hand	316.152	505.839	231.108	1.053.099
Balances with Central Bank	909.300	5.101.219	-	6.010.519
Reserve deposits at Central Bank	2.713.498	9.387.319	4.599.452	16.700.269
Due from banks	1.041.824	4.099.624	494.359	5.635.807
Financial assets at fair value through profit or loss	39.374	315.250	8.874	363.498
Loans and advances	35.807.644	30.447.276	1.741.937	67.996.857
Investment securities	462.634	7.709.118	610.468	8.782.220
Investment in equity- accounted investees	330.548	-	-	330.548
Property and equipment	-	-	92.638	92.638
Other assets	1.650.635	899.494	60.675	2.610.804
Total assets	**43.271.609**	**58.465.139**	**7.839.511**	**109.576.259**
Liabilities				
Deposits from banks	5.958.637	4.898.648	1.099.335	11.956.620
Deposits from customers	29.110.566	31.623.066	4.020.404	64.754.036
Obligations under repurchase agreements	-	5.387.762	-	5.387.762
Loan and advances from banks	8.332.951	10.256.357	32.315	18.621.623
Debt securities issued	-	8.640.905	-	8.640.905
Other liabilities	457.363	329.517	118.917	905.797
Total liabilities	**43.859.517**	**61.136.255**	**5.270.971**	**110.266.743**
Net on balance sheet position	**(587.908)**	**(2.671.116)**	**2.568.540**	**(690.484)**
Net off balance sheet position	**223.198**	**2.534.947**	**(1.995.069)**	**763.076**
Derivative financial assets	1.065.746	5.996.311	1.250.482	8.312.539
Derivative financial liabilities	842.548	3.461.364	3.245.551	7.549.463

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Currency risk (continued)

The concentrations of assets, liabilities and off balance sheet items in various currencies are (continued):

	EUR	USD	Other FC	Total
31 December 2016				
Assets				
Cash on hand	160.639	286.967	181.245	628.851
Balances with Central Bank	1.848.902	6.855.660	-	8.704.562
Reserve deposits at Central Bank	4.811.638	8.891.589	3.640.938	17.344.165
Due from banks	414.994	800.901	386.429	1.602.324
Financial assets at fair value through profit or loss	91.242	138.476	2.489	232.207
Loans and advances	25.426.776	31.447.815	1.194.940	58.069.531
Investment securities	839.904	5.773.053	421.872	7.034.829
Investment in equity- accounted investees	270.028	-	-	270.028
Property and equipment	-	-	74.533	74.533
Other assets	1.389.608	1.348.417	47.243	2.785.268
Total assets	**35.253.731**	**55.542.878**	**5.949.689**	**96.746.298**
Liabilities				
Deposits from banks	8.454.425	3.160.761	1.461.712	13.076.898
Deposits from customers	17.324.616	30.582.332	2.865.858	50.772.806
Obligations under repurchase agreements	-	1.373.871	-	1.373.871
Loan and advances from banks	9.166.425	11.216.600	34.322	20.417.347
Debt securities issued	-	10.684.708	-	10.684.708
Other liabilities	322.787	360.704	181.169	864.660
Total liabilities	**35.268.253**	**57.378.976**	**4.543.061**	**97.190.290**
Net on balance sheet position	**(14.522)**	**(1.836.098)**	**1.406.628**	**(443.992)**
Net off balance sheet position	**(285.828)**	**1.925.895**	**(1.140.708)**	**499.359**
Derivative financial assets	1.387.874	4.185.717	1.571.243	7.144.834
Derivative financial liabilities	1.673.702	2.259.822	2.711.951	6.645.475

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Interest rate risk

The Group's standard interest rate shock methods are being used on a daily basis in respect of measuring the risk arising from repricing mismatch of asset and liability items. The duration within the limits set by Banking Regulation and Supervision Agency that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

The interest rate risk of the banking book items is calculated by taking into account the worst ratio for the Group among the calculated ratios by dividing the total of the differences in terms of maturities and currencies with the shareholders' equity. The mentioned difference is the difference between the net position amounts which are derived from the cash flows of the on-balance and off-balance sheet positions included in the interest sensitive banking book items discounted by the ratios derived from the application of positive and negative shocks, and the net position amounts which are discounted by the ratios without applying the shocks. The maximum limit regarding the economic value change is 20% of shareholders' equity.

During the maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and repricing dates are taken into account for flexible interest instruments. The net amounts of non-performing loans are placed to the relevant maturity periods longer than six months and except demand time interval under other receivables with considering their estimated collection durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

In defining the maturity of demand deposits, average durations which are calculated by statistical analysis are being used.

Interest rate sensitivity:

The impact on financial statements as of 31 December 2017 regarding interest rate instabilities stated below as presented in different currencies:

	Currency	Applied shock (+/- x basis points)	Gains/ losses	Gains/shareholders' equity – losses/ shareholders' equity
1	TL	500	(4.233.277)	(14,86%)
		(400)	4.242.774	14,89%
2	EURO	200	508.529	1,78%
		(200)	(410.052)	(1,44%)
3	USD	200	(652.368)	(2,29%)
		(200)	1.060.994	3,72%
	Total (For negative shocks)		**4.893.716**	**17,17%**
	Total (For positive shocks)		**(4.377.116)**	**(15,37%)**

The impact on financial statements as of 31 December 2016 regarding interest rate instabilities stated below as presented in different currencies:

	Currency	Applied shock (+/- x basis points)	Gains/ losses	Gains/shareholders' equity – losses/ shareholders' equity
1	TL	500	(3.295.737)	(14,32%)
		(400)	3.353.847	14,57%
2	EURO	200	510.345	2,22%
		(200)	(553.459)	(2,40%)
3	USD	200	(86.661)	(0,38%)
		(200)	301.068	1,31%
	Total (For negative shocks)		**3.101.456**	**13,48%**
	Total (For positive shocks)		**(2.872.053)**	**(12,48%)**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Interest rate risk

Average interest rates applied to financial instruments:

Current period	EURO	USD	JPY	TL
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey [5]	-	1,25	-	4,00
Due from other banks and financial institutions[1]	0,08	1,41	-	13,32
Financial assets at fair value through profit and loss	1,10	1,86	-	9,86
Money market placements	-	-	-	12,78
Available-for-sale financial assets	4,60	5,46	-	15,00
Loans[2]	4,78	6,42	0,84	13,12
Held-to-maturity investments	2,50	5,89	-	18,33
Liabilities				
Bank deposits	1,59	4,24	0,10	10,67
Other deposits [4]	1,68	3,50	0,25	12,02
Money market borrowings	-	2,43	-	12,75
Sundry creditors[3]	-	-	-	4,75
Bonds issued	-	4,46	-	13,10
Funds provided from other financial institutions[4]	1,14	3,03	0,84	12,22

Prior Period	EURO	USD	JPY	TL
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey[5]	-	0,49	-	3,30
Due from other banks and financial institutions[1]	0,03	1,34	-	9,63
Financial assets at fair value through profit and loss	-	-	-	9,56
Money market placements	-	-	-	-
Available-for-sale financial assets	5,08	5,46	-	11,61
Loans[2]	4,40	5,59	-	12,80
Held-to-maturity investments	-	5,89	-	14,03
Liabilities				
Bank deposits	0,44	3,17	-	7,82
Other deposits[4]	1,37	3,09	0,25	9,46
Money market borrowings	-	1,84	-	7,52
Sundry creditors[3]	-	-	-	4,75
Bonds issued	-	4,61	-	9,35
Funds provided from other financial institutions[4]	0,66	2,37	-	7,55

(1) Interest rates are calculated using weighted average method for money placement amounts as of balance sheet date.

(2) Interest rates are calculated using weighted average method for loans given as of balance sheet date.

(3) Declared maximum deposits interest rate with a maturity of twelve months as of 31 December 2017.

(4) Customer based calculated interest rates are applied to TL and FC deposits as of 31 December 2017.

(5) Required reserve ratio of the Central Bank of TRNC and Central Bank of Macedonia.

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates:

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2017							
Assets							
Cash on hand	-	-	-	-	-	2.208.138	2.208.138
Balances with and reserve deposits at Central Bank	26.154.546	-	-	-	-	8.318.694	34.473.240
Due from banks	6.248.569	78.154	4.019	-	-	1.271.393	7.602.135
Financial assets at fair value through profit or loss	70.098	20.154	20.268	253	27	10.373.123	10.483.923
Loans and advances [(1)]	93.198.317	23.410.774	46.976.522	31.070.822	7.744.943	2.952.824	205.354.202
Investment securities	588.077	11.978.198	3.339.115	9.138.159	14.559.452	86.349	39.689.350
Other assets	74.029	489.418	768.962	1.493.736	418.697	8.298.204	11.543.046
Total assets	**126.333.636**	**35.976.698**	**51.108.886**	**41.702.970**	**22.723.119**	**33.508.725**	**311.354.034**
Liabilities and equity							
Deposits from banks	13.061.761	2.079.237	212.098	1.094	-	3.860.508	19.214.698
Deposits from customers	98.554.760	33.932.876	14.099.653	785.744	9.584	26.655.464	174.038.081
Obligations under repurchase agreements	3.121.902	1.219.757	2.938	3.603	-	-	4.348.200
Loans and advances from banks	1.696.625	6.003.694	8.775.415	2.366.544	3.812.917	127.923	22.783.118
Interbank money market borrowings	30.655.122	-	-	-	-	-	30.655.122
Debt securities issued	808.898	2.584.804	104.683	8.510.538	-	-	12.008.923
Other liabilities [(2)]	3.141.657	2.413.529	11.426.014	123.013	-	31.201.679	48.305.892
Total liabilities and equity	**151.040.725**	**48.233.897**	**34.620.801**	**11.790.536**	**3.822.501**	**61.845.574**	**311.354.034**
On balance sheet interest sensitivity gap-Long	-	-	16.488.085	29.912.434	18.900.618	-	65.301.137
On balance sheet interest sensitivity gap-Short	(24.707.089)	(12.257.199)	-	-	-	(28.336.849)	(65.301.137)
Off balance sheet interest sensitivity gap-Long	379.000	568.500	2.919.781	819.361	1.902.329	8.939.672	15.528.643
Off balance sheet interest sensitivity gap-Short	-	(568.500)	(2.532.191)	(1.424.801)	(1.902.329)	(8.985.269)	(15.413.090)
Total position	**(24.328.089)**	**(12.257.199)**	**16.875.675**	**29.306.994**	**18.900.618**	**(28.382.446)**	**115.553**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders’ equity is presented in the “non-interest bearing” column.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates (continued):

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2016							
Assets							
Cash on hand	-	-	-	-	-	1.543.129	1.543.129
Balances with and reserve deposits at Central Bank	20.210.851	-	-	-	-	8.457.987	28.668.838
Due from banks	789.110	1.217.399	12.343	-	-	1.018.395	3.037.247
Financial assets at fair value through profit or loss	419.809	10.683	10.204	210	107	8.211	449.224
Loans and advances[(1)]	58.808.334	20.957.655	42.095.743	29.171.482	5.547.844	2.611.505	159.192.563
Investment securities	1.169.476	10.626.126	4.511.177	5.875.453	11.580.398	64.225	33.826.855
Other assets	5.200.663	281.671	673.280	1.400.468	287.219	2.092.442	9.935.743
Total assets	**86.598.243**	**33.093.534**	**47.302.747**	**36.447.613**	**17.415.568**	**15.795.894**	**236.653.599**
Liabilities and equity							
Deposits from banks	12.234.540	2.374.878	383.750	-	-	7.867.043	22.860.211
Deposits from customers	72.774.027	23.195.563	9.436.652	572.900	8.534	21.542.181	127.529.857
Obligations under repurchase agreements	8.475.046	1.478.502	891.064	-	-	-	10.844.612
Loans and advances from banks	4.403.510	5.073.578	9.066.456	2.950.380	2.415.829	19.166	23.928.919
Interbank money market borrowings	-	8.177.524	-	-	-	-	8.177.524
Debt securities issued	323.378	1.052.183	3.493.383	7.875.372	-	-	12.744.316
Other liabilities[(2)]	1.462.375	2.145.974	1.490.415	877.669	29	24.591.698	30.568.160
Total liabilities and equity	**99.672.876**	**43.498.202**	**24.761.720**	**12.276.321**	**2.424.392**	**54.020.088**	**236.653.599**
On balance sheet interest sensitivity gap-Long	-	-	22.541.027	24.171.292	14.991.176	-	61.703.495
On balance sheet interest sensitivity gap-Short	(13.074.633)	(10.404.668)	-	-	-	(38.224.194)	(61.703.495)
Off balance sheet interest sensitivity gap-Long	351.000	287.040	2.324.592	712.029	-	-	3.674.661
Off balance sheet interest sensitivity gap-Short	-	(111.540)	(2.324.592)	(1.141.329)	-	-	(3.577.461)
Total position	**(12.723.633)**	**(10.229.168)**	**22.541.027**	**23.741.992**	**14.991.176**	**(38.224.194)**	**97.200**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders' equity is presented in the "non-interest bearing" column.

(Currency - In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The bank operates in offshore markets. As of 31 December 2017 and 31 December 2016, its capital adequacy ratio is above 12%.

The Bank's consolidated regulatory capital position at 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	31 December 2016
Tier 1 capital	25.112.196	20.984.586
Tier 2 capital	3.317.157	2.049.136
Deductions from capital	(14.057)	(176.365)
Total regulatory capital	**28.415.296**	**22.857.357**
Risk-weighted assets	187.858.563	166.783.094
Value at market risk	3.629.588	2.225.538
Operational risk	14.724.338	12.718.488
Counterparty credit risk and the amount of the discount threshold under the equity (subject to a 250% risk weight)	2.815.793	1.095.370
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13,59%	12,50%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12,01%	11,48%

Fair value of financial instruments

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

	Carrying amount		Fair value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets				
Cash on hand	2.208.138	1.543.129	2.208.138	1.543.129
Balances with Central Bank	17.658.013	11.268.177	17.658.013	11.268.177
Reserve deposits at Central Bank	16.815.227	17.400.661	16.815.227	17.400.661
Due from banks	7.602.135	3.037.247	7.602.135	3.037.247
Loans and advances	205.032.373	158.898.373	218.514.906	149.215.496
Investment securities				
-Held-to-maturity investment securities	*21.987.099*	*18.344.626*	*21.483.366*	*18.302.970*
Finance lease receivables	2.514.554	2.144.498	2.514.554	2.144.498
	273.817.539	**212.636.711**	**286.796.339**	**202.912.178**
Financial liabilities				
Deposits from banks	19.214.698	22.860.211	19.244.166	22.860.211
Deposits from customers	174.038.081	127.529.857	174.304.987	127.669.890
Obligations under repurchase agreements	4.348.200	10.844.612	4.343.675	10.844.612
Loans and advances from banks	22.783.118	23.928.919	21.126.639	25.926.472
Interbank money market borrowings	30.655.122	8.177.524	30.623.219	8.177.524
Debt securities issued	12.008.923	12.744.316	10.798.742	12.180.887
	263.048.142	**206.085.439**	**260.441.428**	**207.659.596**

5. Financial risk management (continued)

Fair value of financial instruments (continued)

Fair values of financial assets such as financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Bank management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances, investment securities, deposits from customers, loans and advances from banks and debt securities issued. These financial assets and liabilities include due from banks, cash on hand, balances wish Central Bank, reserve deposits at Central Bank, finance lease receivables, deposits from banks, obligations under repurchase agreements and interbank money market borrowings. The Bank 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.

For the financial assets and liabilities such as loans and advances, loans and advances from banks, finance lease receivables, deposits and derivative financial instruments; 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 used in estimating discount rates and foreign currency exchange rates. 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 that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement 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. As of 31 December 2017 and 31 December 2016, the Group's fair value classification of financial assets held to the maturity is Level 1.

Classification of fair value measurement

The classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value are disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Group. This distinction brings about a fair value measurement classification generally as follows:

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

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

•Level 3: The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(Currency - In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Classification of fair value measurement (continued)

Classification requires using observable market data if possible.

31 December 2017	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:					
Financial assets at fair value through profit or loss	472.916	109.985	362.931	-	472.916
Debt securities	*94.898*	*94.898*	-	-	*94.898*
Derivative financial assets held for trading purpose	*362.931*	-	*362.931*	-	*362.931*
Share certificates	*1.240*	*1.240*	-	-	*1.240*
Other securities[1]	*13.847*	*13.847*	-	-	*13.847*
Available-for-sale financial assets [2]	17.623.152	17.623.152	-	-	17.623.152
Debt securities	*17.623.152*	*17.623.152*	-	-	*17.623.152*
Other securities	-	-	-	-	-
Total financial assets	**18.096.068**	**17.733.137**	**362.931**	**-**	**18.096.068**
Financial liabilities at fair value through profit/loss:					
Derivative financial liabilities held for trading purpose	150.673	-	150.673	-	150.673
Total financial liabilities	**150.673**	**-**	**150.673**	**-**	**150.673**

(1) As of 31 December 2017, marketable securities amounting to TL 10.578 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(2) As of 31 December 2017, share certificates amounting to TL 79.099 in available for sale financial assets are not included in the above table, which are measured at cost.

31 December 2016	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:					
Financial assets at fair value through profit or loss	441.114	81.005	360.109	-	441.114
Debt securities	*65.538*	*65.538*	-	-	*65.538*
Derivative financial assets held for trading purpose	*360.109*	-	*360.109*	-	*360.109*
Share certificates	*3.095*	*3.095*	-	-	*3.095*
Other securities[1]	*12.372*	*12.372*	-	-	*12.372*
Available-for-sale financial assets [2]	15.421.388	15.421.388	-	-	15.421.388
Debt securities	*15.419.448*	*15.419.448*	-	-	*15.419.448*
Other securities	*1.940*	*1.940*	-	-	*1.940*
Total financial assets	**15.862.502**	**15.502.393**	**360.109**	**-**	**15.862.502**
Financial liabilities at fair value through profit/loss:					
Derivative financial liabilities held for trading purpose	224.593	-	224.593	-	224.593
Total financial liabilities	**224.593**	**-**	**224.593**	**-**	**224.593**

(1) As of 31 December 2016, marketable securities amounting to TL 8.110 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(2) As of 31 December 2016, share certificates amounting to TL 60.841 in available for sale financial assets are not included in the above table, which are measured at cost.

(Currency - In thousands of Turkish Lira ("TL"))

6. Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

	Trading	Designated at fair value	Held-to maturity	Loans and receivables	Available for-sale	Other amortised cost	Total carrying amount
31 December 2017							
Cash on hand	-	-	-	2.208.138	-	-	2.208.138
Balances with Central Bank	-	-	-	17.658.013	-	-	17.658.013
Reserve deposits at Central Bank	-	-	-	16.815.227	-	-	16.815.227
Due from banks	-	-	-	7.602.135	-	-	7.602.135
Financial assets at fair value through profit or loss							
- Trading securities	120.563	-	-	-	-	-	120.563
- Derivative financial instruments	362.931	-	-	-	-	-	362.931
Loans and advances	-	-	-	205.032.373	-	-	205.032.373
Insurance premium receivables	-	-	-	731.825	-	-	731.825
Investment securities:							
-Measured at fair value	-	-	-	-	17.702.251	-	17.702.251
-Measured at amortised cost	-	-	21.987.099	-	-	-	21.987.099
Finance lease receivables	-	-	-	2.514.554	-	-	2.514.554
Total assets	**483.494**	**-**	**21.987.099**	**252.562.265**	**17.702.251**	**-**	**292.735.109**
Deposits from banks	-	-	-	-	-	19.214.698	19.214.698
Deposits from customers	-	-	-	-	-	174.038.081	174.038.081
Obligations under repurchase agreements	-	-	-	-	-	4.348.200	4.348.200
Loans and advances from banks	-	-	-	-	-	22.783.118	22.783.118
Interbank money market borrowings	-	-	-	-	-	30.655.122	30.655.122
Derivative financial instruments	150.673	-	-	-	-	-	150.673
Debt securities issued	-	-	-	-	-	12.008.923	12.008.923
Subordinated liabilities	-	-	-	-	-	1.004.385	1.004.385
Insurance contract liabilities	-	-	-	-	-	2.479.385	2.479.385
Total liabilities	**150.673**	**-**	**-**	**-**	**-**	**266.531.912**	**266.682.585**

(Currency – In thousands of Turkish lira ("TL"))

6. Classification of financial assets and financial liabilities (continued)

	Trading	Designated at fair value	Held-to maturity	Loans and receivables	Available for-sale	Other amortised cost	Total carrying amount
31 December 2016							
Cash on hand	-	-	-	1.543.129	-	-	1.543.129
Balances with Central Bank	-	-	-	11.268.177	-	-	11.268.177
Reserve deposits at Central Bank		-	-	17.400.661	-	-	17.400.661
Due from banks	-	-	-	3.037.247	-	-	3.037.247
Financial assets at fair value through profit or loss							
- Trading securities	89.115	-	-	-	-	-	89.115
- Derivative financial instruments	360.109	-	-	-	-	-	360.109
Loans and advances	-	-	-	158.898.373	-	-	158.898.373
Insurance premium receivables	-	-	-	391.236	-	-	391.236
Investment securities:							
-Measured at fair value	-	-	-	-	15.482.229	-	15.482.229
-Measured at amortised cost	-	-	18.344.626	-	-	-	18.344.626
Finance lease receivables	-	-	-	2.144.498	-	-	2.144.498
Total assets	**449.224**	**-**	**18.344.626**	**195.683.321**	**15.482.229**	**-**	**228.959.400**
Deposits from banks	-	-	-	-	-	22.860.211	22.860.211
Deposits from customers	-	-	-	-	-	127.529.857	127.529.857
Obligations under repurchase agreements	-	-	-	-	-	10.844.612	10.844.612
Loans and advances from banks	-	-	-	-	-	23.928.919	23.928.919
Interbank money market borrowings	-	-	-	-	-	8.177.524	8.177.524
Derivative financial instruments	224.593	-	-	-	-	-	224.593
Debt securities issued	-	-	-	-	-	12.744.316	12.744.316
Subordinated liabilities	-	-	-	-	-	-	-
Insurance contract liabilities	-	-	-	-	-	1.666.823	1.666.823
Total liabilities	**224.593**	**-**	**-**	**-**	**-**	**207.752.262**	**207.976.855**

(Currency – In thousands of Turkish lira ("TL"))

7. Operating segments

The Group has five reportable segments, corporate, commercial, entrepreneur, treasury/investment and other 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.

31 December 2017	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment[2]**	**Other[1]**	**Eliminations**	**Group**
Interest income	2.140.662	3.272.456	13.414.498	4.430.253	410.095	-	23.667.964
Interest expense	(1.448.879)	(726.547)	(8.274.963)	(4.680.531)	(174.962)	-	(15.305.882)
Net interest income	**691.783**	**2.545.909**	**5.139.535**	**(250.278)**	**235.133**	**-**	**8.362.082**
Net fee and commission income	245.201	431.532	1.089.806	351.066	(196.471)	-	1.921.134
Net trading income from securities	-	-	-	35.077	-	-	35.077
Net trading income / (loss) from derivative transactions	-	-	-	(186.756)	(8.962)	-	(195.718)
Foreign exchange gain/(losses), net	-	-	-	202.013	37.253	-	239.266
Net impairment losses on loans and advances	(13.309)	(328.435)	(430.632)	(342.738)	-	-	(1.115.114)
Income from insurance operations	-	-	-	-	1.469.041	-	1.469.041
Cost of insurance operations	-	-	-	-	(1.167.182)	-	(1.167.182)
Dividend income	-	-	-	11.317	322	-	11.639
Other income	42.811	12.593	60.560	46.108	241.134	-	403.206
Other expenses	(24.297)	(55.881)	(1.461.338)	(2.235.644)	(935.321)	-	(4.712.481)
Profit before income tax	**942.189**	**2.605.718**	**4.397.931**	**(2.369.835)**	**(325.053)**	**-**	**5.250.950**
Income tax expense	-	-	-	(996.443)	(69.085)	-	(1.065.528)
Profit for the year	**942.189**	**2.605.718**	**4.397.931**	**(3.366.278)**	**(394.138)**	**-**	**4.185.422**

(1) Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Faktoring AŞ, Halk Varlık A.Ş. and Bileşim AŞ transactions are shown in other column.

(2) Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Banka AD, Skopje, Halkbank AD., Beograd transactions are shown in "treasury/investment" column.

(Currency – In thousands of Turkish lira ("TL"))

7. Operating segments (continued)

31 December 2016	Corporate	Commercial	Entrepreneur	Treasury /Investment [2]	Other [1]	Eliminations	Group
Interest income	1.474.585	2.138.386	10.406.769	3.026.965	316.502	-	17.363.207
Interest expense	(879.936)	(420.987)	(6.006.409)	(2.589.050)	(116.395)	-	(10.012.777)
Net interest income	**594.649**	**1.717.399**	**4.400.360**	**437.915**	**200.107**	**-**	**7.350.430**
Net fee and commission income	194.413	221.663	754.129	257.443	(189.545)	-	1.238.103
Net trading income from securities	-	-	-	20.281	-	-	20.281
Net trading loss from derivative transactions	-	-	-	16.657	(5.499)	-	11.158
Foreign exchange gain/(losses), net	-	-	-	113.898	37.617	-	151.515
Net impairment losses on loans and advances	(182.336)	(430.861)	(603.701)	(366.081)	(62.013)	-	(1.644.992)
Income from insurance operations	-	-	-	-	1.293.068	-	1.293.068
Cost of insurance operations	-	-	-	-	(1.170.476)	-	(1.170.476)
Dividend income	-	-	-	37.873	113	-	37.986
Other income	8.744	26.552	254.916	83.104	66.267	-	439.583
Other expenses	(17.159)	(64.826)	(1.696.112)	(2.213.724)	(8.227)	-	(4.000.048)
Profit before income tax	**598.311**	**1.469.927**	**3.109.592**	**(1.612.634)**	**161.412**	**-**	**3.726.608**
Income tax expense	-	-	-	(698.317)	(10.033)	-	(708.350)
Profit for the year	**598.311**	**1.469.927**	**3.109.592**	**(2.310.951)**	**151.379**	**-**	**3.018.258**

(1) Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Faktoring AŞ, Halk Varlık A.Ş. and Bileşim AŞ transactions are shown in other column.

(2) Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in "treasury/investment" column.

(Currency – In thousands of Turkish lira ("TL"))

7. Operating segments (continued)

The segment assets and liabilities as at 31 December 2017 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other[1]	Group
Segment assets	29.828.946	41.531.752	134.732.676	100.168.803	4.734.102	310.996.279
Investment in equity-accounted investees	-	-	-	357.755	-	357.755
Total assets	**29.828.946**	**41.531.752**	**134.732.676**	**100.526.558**	**4.734.102**	**311.354.034**
Segment liabilities	28.203.697	19.278.142	151.864.060	79.597.703	6.097.883	285.041.485
Total liabilities	**28.203.697**	**19.278.142**	**151.864.060**	**79.597.703**	**6.097.883**	**285.041.485**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under "Other" column.

The segment assets and liabilities as at 31 December 2016 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other[1]	Group
Segment assets	24.362.657	32.567.740	102.022.698	73.238.885	4.175.516	236.367.496
Investment in equity-accounted investees	-	-	-	286.103	-	286.103
Total assets	**24.362.657**	**32.567.740**	**102.022.698**	**73.524.988**	**4.175.516**	**236.653.599**
Segment liabilities	24.699.116	10.479.003	111.370.600	63.422.194	4.675.262	214.646.175
Total liabilities	**24.699.116**	**10.479.003**	**111.370.600**	**63.422.194**	**4.675.262**	**214.646.175**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under "Other" column.

Geographical segments

The Group's geographical segments are based on the location of Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the Bank. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

The Group's acquisition of properties and equipment, intangible assets and investment properties as of 31 December 2017 is mainly occurred in Turkey.

(Currency – In thousands of Turkish lira ("TL"))

8. Cash on hand

At 31 December 2017 and 31 December 2016, cash on hand comprised the following:

	31 December 2017	31 December 2016
Cash on hand		
- Turkish Lira	*1.155.032*	*914.278*
- Foreign currency	*1.043.368*	*599.249*
Precious metals (gold)	9.731	29.570
Other liquid assets	7	32
Total cash on hand	**2.208.138**	**1.543.129**

9. Balances with Central Bank

	31 December 2017	31 December 2016
Unrestricted balances with Central Bank		
Demand deposits – Turkish Lira	11.647.494	2.563.615
Demand deposits – Foreign currency	6.010.519	8.704.562
	17.658.013	**11.268.177**
Reserve deposits		
Reserve deposits – Turkish Lira	114.965	56.496
Reserve deposits – Foreign currency	16.700.262	17.344.165
	16.815.227	**17.400.661**
Total balances with Central Bank	**34.473.240**	**28.668.838**

As per the Communiqué no. 2013/15 "Reserve Deposits" of the Central Bank of Turkey ("CBRT"), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 4%-10,5% for TL deposits and other liabilities, between 4%-24% for FC deposits for other FC liabilities. In accordance with the related communiqué, Central Bank of Turkey pays interests to TL and FC reserves.

With the amendment on 21 October 2014 the banks meeting certain conditions receive interests on Turkish Lira reserve requirements at 300 or 500 basis points less than the weighted average funding cost (WAFC) rate announced on the Central Bank website. The interest related to the reserve requirements set as TL is paid at a rate of 400 basis points less than the 1 week repo rate of the CBRT as of 1 January 2017.

With the change dated 23 January 2015, it has been decided to apply a charge on daily account balances and two days notice account denominated in Euro, and collected on a monthly basis, on reserve requirements held by banks commencing on 1 February 2015. As of 27 July 2015 commission ratios have been announced on the CBRT website as zero percent.

With the change on 2 May 2015 made by the CBRT, interest is paid on US Dollars denominated reserve requirements, reserve options and free reserves held at Central Bank of the Republic of Turkey. The interest rate is set on daily basis by taking global and local financial markets conditions into account.

The applicable interest rate is 1,5% for the reporting period (announced at 18 December 2017).With the decision No.872 dated 30 January 2014 of the Central Bank of TRNC, reserve requirement ratio is between 5% and 8% for TL liabilities and for foreign currency liabilities.

With the Board of Directors decision No. 129 dated 2006 of the Central Bank of Macedonia, reserve requirement ratio is 8% for MKD currency liabilities and 15% for foreign currency liabilities.

According to the Official Gazette of Serbia No. 102/2015 of the Central Bank of Serbia, banks maintain reserve requirement of 5% for short term liabilities with maturities less than two years and 0% for long term liabilities with maturities more than two years, 20% for short term foreign currency liabilities with maturities less than two years and 13% for long term foreign liabilities with maturities more than two years.

(Currency – In thousands of Turkish lira ("TL"))

10. Due from banks

	31 December 2017	31 December 2016
Domestic banks		
Demand deposits – Turkish Lira	36.756	35.775
Demand deposits – Foreign currency	117.672	41.217
Time deposits – Turkish Lira	565.848	74.529
Time deposits – Foreign currency	4.009.197	68.037
	4.729.473	**219.558**
Foreign banks		
Demand deposits – Turkish Lira	70.399	188.533
Demand deposits – Foreign currency	1.230.333	874.658
Time deposits – Turkish Lira	5.157	63.689
Time deposits – Foreign currency	278.605	618.412
	1.584.494	**1.745.292**
Money market placements	**1.288.168**	**1.072.397**
Total due from banks	**7.602.135**	**3.037.247**

For cash flow purposes, bank balances and money market placements having original maturity of less than 3 months were classified as cash and cash equivalents. These balances are amounting to TL 7.583.028 as at 31 December 2017 (31 December 2016: TL 3.009.371).

11. Securities portfolio

Financial assets at fair value through profit or loss

At 31 December 2017 and 31 December 2016, financial assets at fair value through profit or loss comprised the following:

	31 December 2017	31 December 2016
Turkish Government bonds and Eurobonds issued by the Turkish Government	94.898	65.538
Bonds issued by financial institutions	24.425	20.482
Share certificates	1.240	3.095
Total of financial assets at fair value through profit or loss	**120.563**	**89.115**

(Currency – In thousands of Turkish lira ("TL"))

11. Securities portfolio (continued)

At 31 December 2017 and 31 December 2016, available for sale securities portfolio comprised the following:

	31 December 2017	31 December 2016
Treasury bills and government bonds	17.613.370	15.201.823
Equity shares	88.881	280.406
Share certificates not quoted on a stock exchange	*106.162*	*350.479*
Allowance for impairment on equity shares	*(17.281)*	*(70.073)*
Total of available for sale securities	**17.702.251**	**15.482.229**

Available-for-sale securities include securities given as collateral amounting to TL 12.097.899 (31 December 2016: TL 488.507). As of 31 December 2017, available-for-sale investment securities include securities pledged under repurchase agreements amounting to TL 4.463.109 (31 December 2016: TL 5.517.748).

The equity shares in available for sale portfolio are unquoted and detailed as follows:

	31 December 2017	31 December 2016
Macar-Halk Bank Magysrorszagi VolksBank RT	19.344	19.344
IMKB Takas ve Saklama Bankası AŞ	8.501	8.501
Bankalararası Kart Merkezi AŞ	3.804	3.804
Kredi Kayıt Bürosu AŞ	2.516	2.516
Kredi Garanti Fonu İşletme ve Araştırma AŞ	4.749	4.749
Uluslararası Garagum Ortaklar Bankası	-	1.864
Other	67.248	309.701
Allowance for impairment on equity securities	(17.281)	(70.073)
Total equity shares in available for sale investments	**88.881**	**280.406**

The details of allowance for impairment are as follows:

	31 December 2017	31 December 2016
Macar-Halk Bank Magysrorszagi VolksBank RT	17.281	17.281
Uluslararası Garagum Ortaklar Bankası	-	1.626
Halk Gayrimenkul Yatırım Ortaklığı A.Ş.	-	51.166
Allowance for impairment on equity securities	**17.281**	**70.073**

(Currency – In thousands of Turkish lira ("TL"))

11. Securities portfolio (continued)

Held to maturity investment securities comprised the following items:

	31 December 2017	31 December 2016
Government bonds	21.943.704	18.311.223
Other securities	43.395	33.403
Total	**21.987.099**	**18.344.626**

Held to maturity investment securities include securities pledged under repurchase agreements and given as collateral amounting to TL 1.204.712 and TL 20.522.556 (31 December 2016: TL 6.013.373 and TL 5.519.372) respectively.

	31 December 2017	31 December 2016
Held to maturities portfolio:		
Quoted on a stock exchange	21.834.674	18.231.719
Not quoted	152.425	112.907
Total	**21.987.099**	**18.344.626**

The movements of held to maturity investment securities for the years ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January – 31 December 2016
Beginning balance	18.344.626	16.904.877
Foreign currency differences	234.386	404.431
Purchases during the year (1)	5.884.168	3.731.489
Disposals through sales and redemptions	(2.476.081)	(2.696.171)
Balance at the end of the period	**21.987.099**	**18.344.626**

(1) Interest income accrual difference between 31 December 2017 amounting to TL 2.902.185 and 31 December 2016 amounting to TL 1.911.968 has been included in purchases row.

(Currency – In thousands of Turkish lira ("TL"))

12. Loans and advances

	31 December 2017	31 December 2016
Short term loans		
Guaranteed export loans	3.374.344	4.218.876
Other guaranteed loans	25.745.054	20.524.495
Other non-guaranteed loans	8.684.930	6.776.657
Loans provided to financial sector	34.572	461.068
Loans provided to foreign institutions	260.582	187.523
Non-guaranteed export loans	436.829	440.540
Factoring receivables	1.211.932	1.134.528
Interest accruals	574.126	452.069
	40.322.369	**34.195.756**
Medium and long term loans		
Guaranteed other investment and operating loans	113.329.933	80.208.711
Other non-guaranteed loans	47.122.229	40.826.558
Loans given to foreign institutions	1.347.533	1.251.799
Loans given to financial sector	795.649	958.956
Interest accruals	2.436.489	1.750.783
	165.031.833	**124.996.807**
Total performing loans and advances	**205.354.202**	**159.192.563**
Non-performing loans and advances and allowance for impairment		
Gross non-performing loans	6.296.406	5.320.512
Specific allowance for impairment on loans	(4.887.415)	(4.475.519)
Portfolio allowance for impairment on loans	(1.730.820)	(1.139.183)
Loans and advances, net	**205.032.373**	**158.898.373**

The movement in the allowance for impairment on loans for the year ended 31 December 2017 and 31 December 2016 are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Balance on 1 January	(5.614.702)	(4.235.313)
Net impairment loss for the year:	(1.003.533)	(1.379.389)
- Charge for the year	*(1.731.696)*	*(1.657.460)*
- Recoveries and reversals	*728.163*	*278.071*
Balance at 31 December	**(6.618.235)**	**(5.614.702)**

(Currency – In thousands of Turkish lira ("TL"))

13. Insurance receivables and insurance contract liabilities

Insurance receivables

At 31 December 2017 and 31 December 2016, insurance receivables comprised the following:

	31 December 2017	31 December 2016
Receivables from reinsurance and insurance companies	559.933	232.212
Receivables from agencies, brokers and intermediaries	179.072	165.840
Cash deposited to insurance and reinsurance companies	30.661	21.230
Total insurance receivables	**769.666**	**419.282**
Allowance for non-performing insurance receivables	(37.841)	(28.046)
Insurance receivables, net	**731.825**	**391.236**

The details of guarantees for the Group's insurance receivables are presented below:

	31 December 2017	31 December 2016
Mortgage notes	9.737	11.018
Letters of guarantees	5.863	5.407
Treasury bills and government bonds	1.235	1.034
Other guarantees	243	242
Total	**17.078**	**17.701**

The movement in the allowance for impairment in respect of insurance receivables for the year ended 31 December 2017 and 31 December 2016 are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Balance at 1 January	28.046	24.580
Impairment loss recognised	12.890	4.975
Collections during the period	(3.095)	(1.509)
Balance at 31 December	**37.841**	**28.046**

(Currency – In thousands of Turkish lira ("TL"))

13. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities

Insurance technical reserves as of 31 December 2017 and 31 December 2016 are detailed in the tables below:

	31 December 2017	31 December 2016
Life mathematical reserve	330.550	256.070
Unearned premiums reserve	918.924	510.838
Claims provision	1.206.061	813.416
Unexpired risk reserve	8.739	44.737
Other technical reserves	12.651	168
Total technical reserve	**2.476.925**	**1.625.229**
Other insurance liabilities	2.460	41.594
Total insurance contract liabilities	**2.479.385**	**1.666.823**

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2017	31 December 2016
Demir-Halk Bank NV	341.485	270.028
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	15.232	14.854
Türk P ve I Sigorta AŞ	1.038	1.221
Equity accounted investees	**357.755**	**286.103**

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

	Ownership	Total assets	Equity	Profit / (loss) for the year
2017				
Demir-Halk Bank NV	30,00%	8.309.515	1.101.826	71.048
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	48.955	48.402	1.208
Türk P ve I Sigorta AŞ	16,67%	24.113	6.225	1.684
2016				
Demir-Halk Bank NV	30,00%	6.533.210	900.095	56.364
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	47.722	47.193	323
Türk P ve I Sigorta AŞ	16,67%	17.478	5.044	1.379

(Currency – In thousands of Turkish lira ("TL"))

15. Finance lease receivables

Maturity structure of investments on financial lease:

	31 December 2017		31 December 2016	
	Gross	**Net**	**Gross**	**Net**
Less than 1 year	958.715	798.268	648.399	521.243
Between 1-4 years	1.599.672	1.289.512	1.426.002	1.220.074
More than 4 years	452.146	426.774	476.994	403.181
Total	**3.010.533**	**2.514.554**	**2.551.395**	**2.144.498**

Information on gross investments of financial lease:

	31 December 2017	**31 December 2016**
Gross financial lease investment	3.010.533	2.551.395
Unearned revenues from financial lease	(495.979)	(406.897)
Net finance lease receivable	**2.514.554**	**2.144.498**

Information on receivables from non-performing loans of financial lease:

	31 December 2017	**31 December 2016**
Non-performing financial lease receivables	303.328	286.729
Specific provisions	(226.693)	(214.397)
Total	**76.635**	**72.332**

The movement in the allowance for impairment on finance lease receivables for the year ended 31 December 2017 and 31 December 2016 are as follows:

	1 January – 31 December 2017	**1 January – 31 December 2016**
Balance on 1 January	(214.397)	(163.884)
Net impairment loss for the year:	(12.296)	(50.513)
- *Charge for the year*	*(17.832)*	*(79.953)*
- *Recoveries and reversals*	*5.536*	*29.440*
Total	**(226.693)**	**(214.397)**

(Currency – In thousands of Turkish lira ("TL"))

16. Property and equipment

	Land and buildings	Lease hold improvements	Tangible assets obtained for non-performing loans	Other movable tangible assets	Total
Cost					
Balance at 1 January 2016	2.413.004	140.697	543.680	812.458	3.909.839
Additions	16.759	16.151	174.456	62.305	269.671
Disposals	(3.302)	(3.443)	(96.513)	(19.870)	(123.128)
Revaluation surplus	216.993	-	-	-	216.993
Transfers	(163.588)	(257)	-	(3.305)	(167.150)
Balance at 31 December 2016	**2.479.866**	**153.148**	**621.623**	**851.588**	**4.106.225**
Balance at 1 January 2017	2.479.866	153.148	621.623	851.588	4.106.225
Additions	89.452	25.965	239.184	197.342	551.943
Disposals	(54.016)	(26.132)	(144.126)	(35.537)	(259.811)
Revaluation surplus	288.145	-	-	-	288.145
Transfers	-	-	-	(2.029)	(2.029)
Balance at 31 December 2017	**2.803.447**	**152.981**	**716.681**	**1.011.364**	**4.684.473**
Depreciation and impairment losses					
Balance at 1 January 2016	(160.189)	(70.423)	(18.449)	(522.196)	(771.257)
Depreciation for the year	(10.533)	(14.886)	(6.527)	(92.692)	(124.638)
Disposals	19.378	3.828	2.372	45.401	70.979
Revaluation surplus	(9.154)	-	-	-	(9.154)
Transfers	615	-	-	-	615
Balance at 31 December 2016	**(159.883)**	**(81.481)**	**(22.604)**	**(569.487)**	**(833.455)**
Balance at 1 January 2017	(159.883)	(81.481)	(22.604)	(569.487)	(833.455)
Depreciation for the year	(14.993)	(29.431)	(6.180)	(94.056)	(144.660)
Disposals	11.557	21.646	7.364	15.363	55.930
Revaluation surplus	(6.392)	-	-	-	(6.392)
Transfers	-	-	-	-	-
Balance at 31 December 2017	**(169.711)**	**(89.266)**	**(21.420)**	**(648.180)**	**(928.577)**
Provision for impairment at 1 January 2016	**(1.215)**	**-**	**(7.134)**	**-**	**(8.349)**
Additions	-	-	(4.476)	-	(4.476)
Disposals	6	-	585	-	591
Transfers	-	-	-	-	-
Total provision for impairment at 31 December 2016	**(1.209)**	**-**	**(11.025)**	**-**	**(12.234)**
Provision for impairment at 1 January 2017	(1.209)	-	(11.025)	-	(12.234)
Additions	(397)	-	(988)	-	(1.385)
Disposals	1.606	-	2.396	-	4.002
Transfers	-	-	-	-	-
Total provision for impairment at 31 December 2017	**-**	**-**	**(9.617)**	**-**	**(9.617)**
Carrying amounts					
At 1 January 2016	**2.251.600**	**70.274**	**518.097**	**290.262**	**3.130.233**
At 31 December 2016	**2.318.774**	**71.667**	**587.994**	**282.101**	**3.260.536**
At 31 December 2017	**2.633.736**	**63.715**	**685.644**	**363.184**	**3.746.279**

The fair values of land and buildings were determined from market-based evidence by appraisals which are undertaken by qualified external appraisers. The Group renews the revaluations every year and recognizes impairment loss when the recoverable amounts of such assets become less than their carrying amounts. The fair value of the lands and buildings which are held for use are determined with equivalence value and that measurement is classified as Level 2.

(Currency – In thousands of Turkish lira ("TL"))

17. Intangible assets

	Intangible assets	Total
Cost		
Balance at 1 January 2016	163.631	163.631
Additions	54.071	54.071
Disposals	(2.608)	(2.608)
Balance at 31 December 2016	**215.094**	**215.094**
Balance at 1 January 2017	215.094	215.094
Additions	89.366	89.366
Disposals	(7.102)	(7.102)
Balance at 31 December 2017	**297.358**	**297.358**
Amortisation		
Balance at 1 January 2016	(60.625)	(60.625)
Amortisation for the year	(38.994)	(38.994)
Disposals	73	73
Balance at 31 December 2016	**(99.546)**	**(99.546)**
Opening balance, 1 January 2017	(99.546)	(99.546)
Amortisation for the year	(52.873)	(52.873)
Disposals	227	227
Balance at 31 December 2017	**(152.192)**	**(152.192)**
Carrying amounts		
At 1 January 2016	**103.006**	**103.006**
At 31 December 2016	**115.548**	**115.548**
At 31 December 2017	**145.166**	**145.166**

18. Non-current assets held for sale

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

The non-current assets held for sale of the Group as of 31 December 2017 is TL 533 (31 December 2016: TL 1.280).

19. Investment properties

	1 January – 31 December 2017	1 January – 31 December 2016
Balance at 1 January	864.116	485.594
Acquisitions	55.273	7.118
Transfer	61.600	435.903
Disposals	(669)	-
Depreciation	(69.942)	(64.499)
Balance at 31 December	**910.378**	**864.116**

The Group's investment property appraisal reports are prepared by independent professional valuation specialists authorized by Capital Markets Board of Turkey and renews the revaluations every year. TL 22.458 of rent income is generated from investment properties in the current year (31 December 2016: TL 32.105). The fair values of investment properties are determined by equivalence value method and are reclassified as Level 2.

(Currency – In thousands of Turkish lira ("TL"))

20. Other assets

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

	31 December 2017	31 December 2016
Prepaid expenses	1.113.978	607.879
Receivables from credit card payments	304.354	346.496
Cash guarantees given	88.934	340.073
Clearing house account	99.333	324.692
Advances given for lease transactions	129.271	133.621
Receivables from asset sale on credit terms	56.914	79.650
Guarantees given for derivative financial instruments	104.783	53.980
Receivables from financial sector activities	100.810	-
Other assets	994.603	839.685
Total other assets	**2.992.980**	**2.726.076**

21. Deposits

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

	31 December 2017	31 December 2016
Demand deposits	3.813.689	7.867.130
Time deposits	15.401.009	14.993.081
Deposits from banks	**19.214.698**	**22.860.211**

As at 31 December 2017, deposits from banks include TL accounts amounting to TL 7.229.440 (31 December 2016: TL 10.054.872) and foreign currency accounts amounting to TL 11.985.258 (31 December 2016: TL 12.805.339) in total.

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

	31 December 2017		31 December 2016	
	Demand	Time	Demand	Time
Saving deposits	6.767.610	43.569.737	6.158.114	34.424.834
Foreign currency deposits	10.843.568	53.910.468	8.347.244	42.425.562
Commercial deposits	5.235.492	30.100.209	4.294.379	19.754.717
Public institutions and other deposits	2.671.077	20.939.920	2.770.421	9.354.586
Deposits from customers	**25.517.747**	**148.520.334**	**21.570.158**	**105.959.699**

(Currency – In thousands of Turkish lira ("TL"))

22. Obligations under repurchase agreements

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 securities sold under repurchase agreements and corresponding obligations are as follows:

	31 December 2017	31 December 2016
Obligations under repurchase agreements	4.348.200	10.844.612
Total	**4.348.200**	**10.844.612**

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2017, the maturities of the obligations varied from one day to 1 year (31 December 2016: one day to 1 year).

23. Loans and advances from banks

At 31 December 2017 and 31 December 2016, loans and advances from banks comprised the following:

	31 December 2017	31 December 2016
Borrowings	20.058.484	21.589.111
Funds	2.724.634	2.339.808
Total	**22.783.118**	**23.928.919**

At 31 December 2017 and 31 December 2016, borrowings comprised the following:

	31 December 2017		31 December 2016	
	Short term	**Long term**	**Short term**	**Long term**
Loans and advances from domestic banks and institutions	1.262.731	2.898.764	968.495	770.323
Loans and advances from foreign banks and institutions	5.789.308	12.832.315	4.927.580	14.922.713
Borrowings	**7.052.039**	**15.731.079**	**5.896.075**	**15.693.036**

Borrowings are unsecured.

As of 31 December 2017, The Group has no floating rate borrowings (31 December 2016: Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as of 31 December 2017 (31 December 2016: None).

Funds borrowed include funds obtained that are granted as loans as specified in the agreements signed between the Bank and the ministries or the institutions that the funds belong to.

(Currency – In thousands of Turkish lira ("TL"))

23. Loan and advances from banks (continued)

As at 31 December 2017 and 31 December 2016, interest rates and maturities of bank borrowings are as follows:

Fixed rates			
31 December 2017	**Amount**	**Interest rate**	**Maturity**
USD borrowings	10.256.357	0,75% - 3,98%	January 2018 - March 2043
EUR borrowings	8.332.951	0% - 2,33%	January 2018 - September 2038
TL borrowings	1.436.861	6,34% - 7,79%	January 2018 - December 2018
Other borrowings	32.315	0% - 1,78%	January 2018 - May 2019
Total	**20.058.484**		

Fixed rates			
31 December 2016	**Amount**	**Interest rate**	**Maturity**
USD borrowings	10.602.350	0% - 5,69%	January 2017 - September 2038
EUR borrowings	7.404.614	0% - 0,03%	January 2017 - September 2038
TL borrowings	1.171.764	5,00% - 10,03%	January 2017 - December 2018
Other borrowings	34.322	2,21%	February 2017
Total	**19.213.050**		

As of 31 December 2017, The Group has no floating rate borrowings.

Floating rates			
31 December 2016	**Amount**	**Interest rate**	**Maturity**
USD borrowings	614.250	Libor+0,55	July 2017
EUR borrowings	1.761.811	Euribor+0,45	July 2017
Total	**2.376.061**		

(Currency – In thousands of Turkish lira ("TL"))

24. Interbank money market borrowings

	31 December 2017	31 December 2016
Payables to stock exchange money market	30.307.004	1.032.372
On behalf of customers	348.118	7.145.152
Total	**30.655.122**	**8.177.524**

Payables to stock exchange money markets have a maturity of 31 days (31 December 2016: 31 days) 14,50% (31 December 2016: 15,24%) of interest rates.

25. Taxation

The Bank and its subsidiaries located in Turkey are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2017 (31 December 2016: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

The corporate tax rate which has been applied at the rate of 20% in accordance with the Article 32 – paragraph 1 of the Corporate Tax Law No: 5520, was set as 22% for the tax bases of the years 2018, 2019, and 2020 (applicable as of the beginning of the accounting periods in the related year for institutions designated a special accounting period) as per the provisional article 10 incorporated by the Article 91 of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down up to 20%.

The Law numbered 7061 on Amendment of Certain Taxes and Laws and Other Acts was published on the Official Gazette dated December 5, 2017 and numbered 30261. Article 5 entitled "Exceptions" of the Corporate Tax Law has been amended in Article 89 of the Law. In accordance with (a) clause in the first paragraph of the Article, the exemption of 75% applied to gains from the sales of lands and buildings held by the entities for two full years has been reduced to rate of 50%. This regulation has been effective from 5 December 2017 (31 December 2016: According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.).

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

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2017 is 20% (31 December 2016: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

25. Taxation (continued)

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% in accordance with Article 15 of the Law No: 5520 commencing 23 July 2006.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

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.

(Currency – In thousands of Turkish lira ("TL"))

25. Taxation (continued)

Transfer pricing

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

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with 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.

Tax applications for foreign branches and foreign operations

The principal tax rates (%) of the tax authorities in each country as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
TRNC	10%	10%
Bahrain	-	-
Serbia	15%	15%
Republic of Macedonia	10%	10%

As of 31 December 2017 and 31 December 2016 advance income taxes are netted off with the current income tax liability as stated below:

	31 December 2017	31 December 2016
Income tax liability	799.366	625.363
Income tax paid in advance	(603.728)	(560.753)
Income tax payables	**195.638**	**64.610**

Deferred taxes

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

Tax rate used in the calculation of deferred tax assets and liabilities was 22% over temporary timing differences expected to be reversed in 2018, 2019 and 2020, and 20% over temporary timing differences expected to be reversed in 2021 and the following years (31 December 2016: 20%).

Individual consolidated subsidiaries offset deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority. Subsidiaries that have deferred tax assets position are not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

(Currency – In thousands of Turkish lira ("TL"))

25. Taxation (continued)

***Deferred taxes** (continued)*

As of 31 December 2017, net deferred tax represents TL 108.765 net deferred tax liability, consisting of deferred tax assets and deferred liabilities amounting to TL 465.405 and TL 574.170, respectively. (31 December 2016: TL 440.540 and TL 288.974, respectively). Deferred tax assets and liabilities are attributable to the following:

Deferred tax asset / (liability)	**31 December 2017**	**31 December 2016**
Valuation differences on financial assets and liabilities	(600.353)	(375.878)
Provisions	301.129	277.574
Portfolio and specific provision for impairment on loans and advances	378.224	336.098
Other	(187.765)	(86.228)
Deferred tax liability, net	**(108.765)**	**151.566**

Movement of net deferred tax can be presented as follows:

	1 January – 31 December 2017	**1 January – 31 December 2016**
Deferred tax, net at 1 January	151.566	216.701
Deferred income tax recognised in other comprehensive income	50.209	18.034
Deferred tax recognised in the profit or loss	(310.540)	(83.169)
Deferred tax, net	**(108.765)**	**151.566**

An analysis of the Group's income tax expense for the year ended 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	**31 December 2016**
Current tax charge		
Current period	1.376.068	791.519
Deferred tax charge / (benefit)		
Origination and reversal of temporary differences	(310.540)	(83.169)
Total income tax charge	**1.065.528**	**708.350**

(Currency – In thousands of Turkish lira (“TL”))

25. Taxation (continued)

Reconciliation of effective tax rate

The reported taxation charge for the year ended 31 December 2017 and 31 December 2016 are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	31 December 2017		31 December 2016	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**5.250.950**		**3.726.608**	
Income tax using the Bank’s domestic tax rate	1.050.190	20%	745.322	20,00%
Tax exempt income	(9.703)	(0,18%)	(72.851)	(1,95%)
Non-deductible expenses	25.041	0,48%	35.879	0,96%
Income tax charge	**1.065.528**	**20,3%**	**708.350**	**19,01%**

26. Other liabilities and provisions

	31 December 2017	31 December 2016
Other liabilities		
Cooperative deposit blockages	1.718.727	1.350.126
Credit card members restricted account	1.568.922	1.166.562
Unearned revenue	1.163.889	772.757
Cheques clearance account	234.204	746.603
Taxes and dues payable	502.121	292.151
Banking transactions	182.019	111.887
Payment orders	109.280	31.545
Resource utilization support fund	36.350	31.253
Import transfer orders	17.600	30.394
Collaterals received for derivative instruments	15.590	14.134
Other liabilities	687.430	515.568
Total	**6.236.132**	**5.062.980**
Provisions		
Employee termination benefits	497.405	421.497
Unused vacation accruals	162.485	139.874
Provision on non-cash loans	131.448	139.279
Provision on lawsuits	110.968	37.481
Provisions for credit card bonuses	18.149	12.680
Other	432.076	501.945
Total	**1.352.531**	**1.252.756**

(Currency – In thousands of Turkish lira ("TL"))

26. Other liabilities and provisions (continued)

Employee termination benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of full TL 4.732,48 and full TL 4.297,21 at 31 December 2017 and 31 December 2016 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements the Group reflected a liability calculated using the Actuarial Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The annual ceiling has been increased to full TL 5.001,76 effective 1 January 2018.

The principal actuarial assumptions used in the calculation of the total liability at the reporting date are as follows:

	31 December 2017	**31 December 2016**
Discount rate for pension plan liabilities	8,90%	7,80%
Expected rates of salary increase	12,30%	11,20%
Inflation	9,10%	8,00%

Movements in the present value of the defined benefit obligation were as follows:

	1 January – 31 December 2017	**1 January – 31 December 2016**
Defined benefit obligation at 1 January	421.497	409.923
Current service cost	50.039	39.704
Interest cost	44.640	42.955
Actuarial losses/(gains)	14.073	(21.783)
Previous year service cost charged for the period	52	877
Payment/ limitation of benefits/ loss (gain) because of discharge	8.229	136
Benefits paid	(41.125)	(50.315)
Defined benefit obligation at 31 December	**497.405**	**421.497**

Amounts recognized in profit and loss in respect of defined benefit plan are as follows:

	31 December 2017	**31 December 2016**
Current service cost	50.039	39.704
Interest cost	44.640	42.955
Previous Charge for the last financial period	52	877
Payment/ limitation of benefits/ loss (gain) because of discharge	8.229	136
	102.960	**83.672**

(Currency – In thousands of Turkish lira ("TL"))

26. Other liabilities and provisions (continued)

Post-employment benefits (pension)

Based on the results of the actuarial reports prepared as of 31 December 2017, it was determined that there is no technical deficit for Türkiye Halk Bankası AŞ Emekli Sandığı and T.C. Ziraat Bankası ve Türkiye Halk Bankası Çalışanları Emekli Sandığı Vakfı.

The above mentioned actuarial review, which was made in accordance with the principles of the related law, measures the present value of the liability as of 31 December 2017, in other words; it measures the amount to be paid to the Social Security Foundation by the Bank. Actuarial assumptions used in the calculation are given below.

Assumptions	**31 December 2017**	**31 December 2016**
Discount Rate	9,8%	9,8%
Mortality Rate	CSO 1980 woman/man	CSO 1980 woman/man

Some of the Bank's personnel are the members of T. Halk Bankası Çalışanları Emekli Sandığı Vakfı, ("Fund") which was established by 20th provisional article of Social Security Law numbered 506. As of 31 December 2017, the number of personnel who benefit from the Fund is 34.631 (31 December 2016: 33.079).

Below table shows the present values of premiums and salary payments as of 31 December 2017, by taking into account the health expenses within the Social Security Foundation limits.

Transferable pension and medical benefits:	**31 December 2017**	**31 December 2016**
Net present value of total liabilities other than health	(1.938.100)	(1.601.730)
Net present value of long term insurance line premiums	2.167.717	1.781.839
Net present value of total liabilities other than health	**229.617**	**180.109**
Net present value of health liabilities	(435.970)	(392.002)
Net present value of health premiums	1.354.206	1.113.143
Net present value of health liabilities	**918.236**	**721.141**
Pension fund assets	**1.911.745**	**1.525.471**
General administration expenses (1%)	(23.741)	(19.937)
Amount of actuarial and technical (deficit) / surplus	**3.035.857**	**2.406.784**

Plan assets are comprised as follows:

Total assets	**31 December 2017**	**31 December 2016**
Banks	1.104.186	1.220.100
Marketable securities	644.310	151.300
Property and equipment	126.403	129.800
Other	36.846	24.271
Total	**1.911.745**	**1.525.471**

On the other hand, after the transfer, the currently paid health benefits will be revised within the framework of the Social Security Foundation legislation and related regulations.

(Currency – In thousands of Turkish lira ("TL"))

26. Other liabilities and provisions (continued)

Post-employment benefits (pension) (continued)

The sensitivity analysis of defined benefit obligation of excess liabilities and retirement indemnities are as follows:

Change in assumptions (%)

Assumptions	Pension benefits	Death benefits	Medical benefits	Total
Discount rate +1%	(0,1%)	(19,6%)	(19,0%)	**(19,0%)**
Discount rate -1%	0,1%	27,0%	26,1%	**26,0%**
Inflation rate +1%	0,1%	27,1%	32,4%	**32,30%**
Inflation rate -1%	(0,1%)	(19,9%)	(22,6%)	**(22,50%)**

Based on the results of the actuarial report prepared as of 31 December 2017, no technical deficit has been reported for Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı and T.C. Ziraat Bankası ve T. Halk Bankası Çalışanları Emekli Sandığı Vakfı.

27. Derivative financial instruments

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The table below shows the fair values of derivative financial instruments. The notional 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 notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	31 December 2017			31 December 2016		
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Currency swap contracts	114.410	58.002	6.358.831	128.468	17.465	5.622.434
Other swap contracts	203.836	3.403	10.886.762	110.992	-	9.804.244
Other	44.685	89.268	14.606.591	120.649	207.128	10.224.988
Total	**362.931**	**150.673**	**31.852.184**	**360.109**	**224.593**	**25.651.666**

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

28. Debt securities issued and subordinated liabilities

	31 December 2017	31 December 2016
Debt securities issued at amortized cost	12.008.923	12.744.316
Total of debt securities issued	**12.008.923**	**12.744.316**

(Currency – In thousands of Turkish lira ("TL"))

28. Debt securities issued and subordinated liabilities (continued)

Debt securities issued comprise of the following:

	31 December 2017		
Debt securities issued	**Maturity**	**Interest rate %**	**Amount**
Debt securities of TL	January 2018 - May 2018	11,21% - 14,4%	3.368.018
Debt securities of USD	June 2019 - July 2021	3,88% - 4,75%	8.640.905
			12.008.923

	31 December 2016		
Debt securities issued	**Maturity**	**Interest rate %**	**Amount**
Debt securities of TL	January 2017 - May 2017	9,5% - 11,08%	2.059.608
Debt securities of USD	July 2017 - July 2021	1,94% - 2,44%	10.684.708
			12.744.316

As of 14 August 2017, the treasury bills amounting to TL 750.000.000 with maturity of 175 days and as of 26 September 2017, the treasury bills amounting to TL 38.500.000 with maturity of 112 days and as of 5 October 2017, the treasury bills amounting to TL 200.000.000 with maturity of 80 days and as of 5 October 2017, the treasury bills amounting to TL 180.000.000 with maturity of 150 days and as of 12 October 2017, the treasury bills amounting to TL 220.000.000 with maturity of 94 days and as of 20 October 2017, the treasury bills amounting to TL 300.000.000 with maturity of 93 days and as of 31 October 2017, the treasury bills amounting to TL 120.000.000 with maturity of 96 days and as of 3 November 2017, the treasury bills amounting to TL 75.000.000 with maturity of 105 days and as of 7 November 2017, the treasury bills amounting to TL 165.000.000 with maturity of 103 days and as of 10 November 2017, the treasury bills amounting to TL 130.000.000 with maturity of 131 days and as of 10 November 2017, the treasury bills amounting to TL 75.000.000 with maturity of 98 days and as of 17 November 2017, the treasury bills amounting to TL 150.000.000 with maturity of 98 days and as of 27 November 2017, the treasury bills amounting to TL 185.000.000 with maturity of 90 days and as of 11 December 2017, the treasury bills amounting to TL 320.000.000 with maturity of 106 days and as of 26 December 2017, the treasury bills amounting to TL 200.000.000 with maturity of 87 days and as of 26 December 2017, the treasury bills amounting to TL 105.000.000 with maturity of 150 days are issued by the Bank. The Bank intends to continue to diversify its funding base with international financings and debt capital market instruments. (31 December 2016: As of 27 November 2015, the treasury bills amounting to TL 1.000.000 with maturity of 175 days are issued by the Bank. Also, as of 11 September 2015, the Bank issued treasury bills amounting to TL 750.000 with maturity of 175 days. As of 19 July 2012, the bonds amounting to USD 750.000.000 with maturity of 5 years and as of 5 February 2013, the bonds amounting to USD 750.000.000 with maturity of 7 years and as of 4 June, 2014, the bonds amounting to USD 500.000.000 with maturity of 5 years and 11 February 2015, the bonds amounting to USD 500.000.000 with maturity of 5 years are issued by the Bank. In July 2016, the Bank issued its fifth Eurobond of USD 500.000.000 with 5 years maturity.)

(Currency – In thousands of Turkish lira ("TL"))

28. Debt securities issued and subordinated liabilities (continued)

	31 December 2017	31 December 2016
Subordinated liabilities at amortized cost	1.004.385	-
Total of subordinated liabilities	**1.004.385**	**-**

Issuance of subordinated liabilities was completed on 20 October 2017 amounting to TL 1 million with a call option on 20 October 2022 (At the end of the fifth year, the Bank has an early redemption option.) and due 20 October 2027 with a coupon rate Government Debt Security for 5 years+350 basis points.

29. Collaterals of borrowed securities and borrowed securities

Collaterals of borrowed securities are recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Borrowed securities are recognized as liabilities. Collaterals of borrowed securities and borrowed securities are recognized in the statement of financial position as the related risks and rewards of such securities are retained. Collaterals of borrowed securities and borrowed securities are not recorded under commitments and contingencies.

	31 December 2017	31 December 2016
Collaterals of borrowed securities	10.000.429	-
Total of collaterals of borrowed securities	**10.000.429**	**-**

	31 December 2017	31 December 2016
Borrowed securities	10.000.429	-
Total of borrowed securities	**10.000.429**	**-**

30. Share capital

As at 31 December 2017, the authorized nominal share capital of the Bank amounts to TL 1.250.000 (31 December 2016: TL 1.250.000). The Bank's paid-in capital is divided into 1.250.000.000 shares, each with a nominal value of full TL 1.

	31 December 2017	31 December 2016
Paid-in capital	1.250.000	1.250.000
Inflation restatement effect	1.328.184	1.328.184
Shared capital issued	**2.578.184**	**2.578.184**

(Currency – In thousands of Turkish lira ("TL"))

31. Reserves and dividends paid and proposed

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised. Fair value reserve amount is TL (612.931) for the current period (31 December 2016: TL (724.098)).

Other reserves

Other reserves consist of legal reserves kept within the Group and translation reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The legal reserves as at 31 December 2017 are TL 1.758.941 (31 December 2016: TL 1.562.172).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The translation reserve amount is TL (4.311) for the current period (31 December 2016: TL 43.912).

As of 1 April 2015, the Group adopted the revaluation method for land and buildings in tangible assets in accordance with International Accounting Standard No: 16 "Property, Plant and Equipment" (IAS 16). Expertise values determined by an independent expert companies are reflected to the financial statements. Revaluation differences are recorded in "Revaluation differences of property and equipment" under the shareholders' equity. The revaluation differences of property and equipment is TL 146.368 for the current period (31 December 2016: TL 434.347).

Total of the other reserves amount is TL 4.166.125 (31 December 2016: TL 3.711.960).

Dividends paid and proposed

As of the reporting date, the Bank has paid a dividend of TL 0,2053 per share (total TL 256.584) out of 2016 profit (31 December 2016: 0,1909 per share (total TL 238.603)).

32. Earnings per share

Basic earnings per share (EPS) 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 of 31 December 2017 and 31 December 2016.

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	31 December 2017	**31 December 2016**
Net profit attributable to ordinary shareholders for basic earnings per share	4.172.937	3.012.408
Weighted average number of ordinary shares for basic earnings per share	1.250.000.000	1.250.000.000
Basic earnings per share (full TL per share)	**3,3383**	**2,4099**

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.

(Currency – In thousands of Turkish lira (“TL”))

33. Related parties

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group’s Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party respectively of the Group is Türkiye Varlık Fonu Yönetimi A.Ş. (“TVF”). The shares belonging to the T.C. Prime Ministry Privatization Administration were transferred to the TVF on 10 March 2017 pursuant to the Decree of the Higher Council for Privatization No. 2017/1 dated 3 February 2017. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Transactions with key management personnel

Key management personnel comprise of the Group’s directors and key management executive officers.

As of 31 December 2017 and 31 December 2016 the Group’s directors and executive officers have no outstanding personnel loans from the Bank.

In addition to their salaries, the Group also provides non-cash benefits to directors.

Total compensation provided to key management personnel is:

	1 January – 31 December 2017	**1 January – 31 December 2016**
Salaries and short-term benefits	25.695	21.020

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank's management believes that all such agreements or protocols are on terms that are at least as advantageous to the Bank as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

Related party balances and transactions

31 December 2017	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission income**
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	-	1.075	19.480	5	2.474	-
Kredi Kayıt Bürosu AŞ	-	-	20.001	-	149	-
Bankalararası Kart Merkezi AŞ	-	-	-	-	323	-
Total	**-**	**1.075**	**39.481**	**5**	**2.946**	**-**

31 December 2016	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission income**
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	-	1.926	20.576	-	2.529	-
Kredi Kayıt Bürosu AŞ	-	-	-	-	-	-
Bankalararası Kart Merkezi AŞ	-	-	-	-	-	-
Total	**-**	**1.926**	**20.576**	**-**	**2.529**	**-**

(Currency – In thousands of Turkish lira (“TL”))

34. Other operating income

	1 January – 31 December 2017	**1 January – 31 December 2016**
Reversal from prior years' provisions	136.410	178.936
Gains on sale of property and equipment	112.134	129.232
Rent income	49.417	51.930
Other	83.734	62.176
Total	**381.695**	**422.274**

35. Other operating expenses

	1 January – 31 December 2017	**1 January – 31 December 2016**
Staff costs:		
Personnel expenses	*2.174.853*	*1.895.986*
Retirement pay provision	*98.844*	*83.672*
Administrative expenses	1.138.555	1.305.467
Depreciation and amortization charges	178.943	228.131
Saving deposit insurance fund contributions	193.700	185.561
Taxes, duties, charges and premium expenses	189.618	173.476
Provision expense for lawsuits	3.027	6.027
Other	734.941	121.728
Total	**4.712.481**	**4.000.048**

36. Fees and commission income and expenses

	1 January – 31 December 2017	**1 January – 31 December 2016**
Fees and commission income		
Banking	2.459.088	1.713.431
Brokerage	47.712	26.708
Total	**2.506.800**	**1.740.139**
Fees and commission expenses		
Banking	(583.428)	(501.024)
Brokerage	(2.238)	(1.012)
Total	**(585.666)**	**(502.036)**

(Currency – In thousands of Turkish lira ("TL"))

37. Additional cash flow information

	31 December 2017	31 December 2016
Cash on hand	2.208.138	1.543.097
Due from banks		
(with original maturity of less than 3 months)	6.291.230	1.936.974
Money market placements	1.285.499	1.072.397
Blocked balances with banks [1]	(314.564)	(290.080)
Unrestricted balances with Central Bank	17.652.682	11.268.177
Other liquid assets	7	32
Cash and cash equivalents in the statement of cash flows	**27.122.992**	**15.530.597**

[1] Blocked accounts for technical reserves of Halk Hayat ve Emeklilik AŞ amounting to TL 182.179 (31 December 2016: TL 248.138) and of Halk Sigorta AŞ amounting to TL 132.385 (31 December 2016: TL 41.942), which are given as collateral to under secretariat of Treasury of Republic of Turkey.

The reserve deposits with Central Bank are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

38. 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 financial statements including:

	31 December 2017	31 December 2016
Letters of guarantee issued	49.660.108	40.118.905
Letters of credit	4.148.121	4.019.100
Acceptance credits	3.693.507	2.825.466
Other	1.285.922	914.248
Total non-cash loans	**58.787.658**	**47.877.719**
Credit card limit commitments	11.599.896	10.824.073
Other commitments	11.678.758	12.921.296
Total	**82.066.312**	**71.623.088**

Fiduciary activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying financial statements.

The Group transferred all investment funds to Halk Portföy Yönetimi AŞ, which were established under the regulations of the Capital Markets Board of Turkey. Halk Portföy Yönetimi AŞ is engaging in fund management of 12 funds.

38. Commitments and contingencies (continued)

Letters of guarantee given to BIST and Borsa Istanbul Precious Metals and Diamond Market

As of 31 December 2017, according to the general requirements of the BIST, letters of guarantee amounting to USD 2.000 (31 December 2016: USD 50 and EUR 5.000) was obtained from various local banks and were provided to BIST for bond and stock market transactions by the Group.

Litigation

In the normal course of its operations, the Group can constantly be faced with legal disputes, claims and complaints, which in most cases stem from normal insurance operations. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

Other

650 branch premises of the Bank are lease holder under operational leases. The lease periods vary between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

The Group is contingently liable with respect to reinsurance, which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to the Group. In the opinion of management no provision is necessary for this remote contingency.

39. Other matters

One of the Bank's directors has been convicted for some of the charges in the first phase of the trial by the jury in the United States of America of the violation of the USA sanctions involving Iran. The subsequent legal process is not yet completed but ongoing for the defendant director of the Bank such as appeal and other legal rights following the first phase of the trial.

The Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the Bank.

The Bank is always sensitive in complying with national and international regulations and puts considerable efforts in improving such compliance policies in line with international standards.

In providing the banking transactions, the Bank is not following the foreign trade applications, mechanisms, methods and systems, other than prevailing banking practices and those adopted by other banks. The foreign trade transactions and Money transfers are open and transparent, and easily be monitored by authorities. The Bank will continue to adopt the same policies of transparency and compliance with international regulations.

The Bank placed a high importance on this matter and established a separate "Compliance Department". The Bank is receiving advisory services from an international expert firm in forming effectiveness of this department's policies and control procedures and processes.

40. Subsequent events

None.