Türkiye Halk Bankası Anonim Şirketi
And Its Subsidiaries

Consolidated Financial Statements
As at and For the Year Ended
31 December 2018
With Independent Auditors' Report Thereon

Deloitte.

DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Maslak no1 Plaza
Eski Büyükdere Caddesi
Maslak Mahallesi No:1
Maslak, Sarıyer 34485
İstanbul, Türkiye

Tel : +90 (212) 366 6000
Fax : +90 (212) 366 6010
www.deloitte.com.tr

Mersis No: 0291001097600016
Ticari Sicil No : 304099

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türkiye Halk Bankası A.Ş.

Qualified 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 2018, and the consolidated statement of profit or loss and other 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, expect for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

The accompanying consolidated financial statements as at 31 December 2018, include a general reserve amounting to TRY 451.000 thousand, provided by the Group management for the possible result of the negative circumstances which may arise from any changes in the economy or market conditions. If such general provision was not provided, as at 31 December 2018, other provisions would decrease by TRY 451.000 thousand, prior years' income would increase by TRY 17.000 and net profit for the year would increase by TRY 434.000 thousand.

The Group reclassified the government bonds amounting to TRY 18.965.006 thousand, which were previously classified under financial assets at fair value through other comprehensive income according to the business model prepared in accordance with IFRS 9, into financial assets measured at amortised cost and reversed the marketable securities revaluation fund accumulated under other comprehensive income or loss to be reclassified through profit or loss amounting to TRY 2.229.977 thousand on 23 May 2018. The reclassification constitutes a departure from IFRS 9. The government bonds reclassified into financial assets measured at amortised cost as at 31 December 2018 amounted to TRY 17.904.805 thousand. If such classification were not made, total assets and shareholders' equity excluding tax effect would be lower by TRY 2.597.814 thousand as at 31 December 2018.

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.

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Emphasis of Matter

As detailed in Note 38, As detailed in Section 6 Note 1, one of the Bank's former directors has been convicted and imprisoned for some of the charges by the court in the United States of America ("USA") of the violation of the USA sanctions involving Iran as of 16 May 2018. The subsequent legal process is not yet completed but ongoing for the defendant former 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 consolidated 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.

Key Audit Matter	How the matter was addressed in the audit
Impairment of loans in accordance with IFRS 9 Impairment of loans is a key area of judgement for the management. The Group has the total loans and receivables amounting to TRY 258.608.521 thousands, which comprise 66% of the Group's total assets in its consolidated financial statements and the total provision for impairment amounting to TRY 9.027.374 as at 31 December 2018. As of 1 January 2018, the Group has started to recognize provisions for impairment in accordance with the IFRS 9 requirements. In this respect, as of 31 December 2017, the method of provisions for impairment as set out in accordance with IFRS 9 as mentioned in the Note 4.25 of Explanation on Accounting Policies has been changed by applying the expected credit loss model under IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions. The Group exercises significant decisions using judgement, interpretation and assumptions over	As part of our audit work, the following procedures were performed: We assessed and tested the design, implementation and operating effectiveness of key controls applied by the Group with respect to classification of loans and determination and calculation of impairments. Our information system experts have also participated to perform these procedures. We have read and analysed the relevant contract terms to assess management's accounting policy and classification of the instrument for selected samples. We have performed loan review procedures on selected samples of loans and receivables with the objective of identifying whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the framework of the provisions of the relevant legislation. We have tested relevant inputs and assumption used by the management in each stage of the expected credit loss calculation by considering whether the inputs and assumptions appear reasonable, the

calculating loan impairments. These judgements, interpretations and assumptions are key in the development of the financial models built to measure the expected credit losses on loans. There is a potential risk of impairment losses/provisions provided/will be provided may not meet the requirements of the IFRS 9. Failure in determining the loans and receivables that are impaired and not recording the adequate provision for these impaired loans is the aforementioned risk. Accordingly, impairment of loans is considered as a key audit matter. Related explanations relating to the impairment of loans and receivables are presented in Note 11.	relationship between the assumptions and whether the assumptions are interdependent and internally consistent, whether the assumptions appropriately reflect current market information and collections, and whether the asumptions appear reasonable when considered collectively with other assumptions, including those for the same accounting estimates and those for other accounting estimates. We have tested historical loss data to validate the completeness and accuracy of key parameters. We have tested whether the model is applied to appropriate groupings of assets which share credit risk characteristics and whether the historical loss rates were incurred under economic conditions representative of those that may exist during the assets' exposure periods. We tested the application of the model to the relevant inputs and the mathematical integrity of each stage of the expected credit loss calculation. Based on our discussions with the Group management, we evaluated whether the key assumptions and other judgements underlying the estimations of impairments were reasonable. Our specialists are involved in all procedures related to models and assumptions. We have reviewed disclosures made within the IFRS 9 framework in the consolidated financial statements of the Group with respect to loans and receivables and related impairment provisions.
Key Audit Matter	**How the matter was addressed in the audit**
First time adaptation of IFRS 9 Financial Instruments Standard As of 1 January 2018, the Group started to recognize provisions for impairment in accordance with the IFRS 9 requirements. IFRS 9 standard introduced significant changes in accounting policies and required adjustments to be made to the amounts previously recognized in accordance with the transition rules. For the first time adoption of IFRS 9, the Group included more significant estimates and judgments in determining the business model and the cash flows characteristics of contracts. Since the Group had a fundamental change in its financial reporting framework and had an impact on many significant financial statement line-	Our audit work included the following procedures: The Group's IFRS 9 policy of the classification of financial assets and financial liabilities has been read and compared with the requirements of IFRS 9. The Group's contractual cash flows tests for its financial instruments have been reviewed, its criteria and results have been evaluated. The appropriateness of the opening balance adjustments and the disclosures presented were checked. The procedures applied for the expected credit losses are set out in the key audit matter related to the

items, the first time adoption of IFRS 9 has been considered as a key audit matter. Explanations on the equity effects of IFRS 9 transition in Note 4.25.	"Impairment of loans in accordance with IFRS 9" above.
Key Audit Matter	**How the matter was addressed in the audit**
Valuation of Pension Fund Obligations Defined benefit pension plan that the Parent 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 Note 4.20 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 even if it is included in foundation voucher. As of 31 December 2018, 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 15 December 2006 and No.26377. 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 25 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.

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 2019

Türkiye Halk Bankası Anonim Şirketi and Its Subsidiaries

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018

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

	Notes	**31 December 2018**	**31 December 2017**
Assets			
Cash on hand	8	4.591.888	2.208.138
Balances with Central Bank	9	14.074.205	17.658.013
Reserve deposits at Central Bank	9	16.909.521	16.815.227
Due from banks	10	5.209.855	7.602.135
Financial assets at fair value through profit or loss		1.226.636	483.494
- Securities		*164.555*	*120.563*
- Derivative financial instruments	*26*	*1.062.081*	*362.931*
Collaterals of borrowed securities	28	14.374.380	10.000.429
Loans and advances	11	258.608.521	207.546.927
Insurance premium receivables	13	1.302.817	731.825
Investment securities:		61.192.513	39.689.350
- Debt and other instruments at FVTOCI	*12*	*4.870.916*	*17.702.251*
- Debt and other instruments at amortised cost	*12*	*56.321.597*	*21.987.099*
Investment in equity-accounted investees	14	449.370	357.755
Property and equipment	15	4.636.507	3.746.279
Intangible assets	16	185.789	145.166
Non-current assets held for sale	17	9.336	533
Investment property	18	973.401	910.378
Deferred tax assets	24	103.929	465.405
Other assets	19	5.281.321	2.992.980
Total assets		**389.129.989**	**311.354.034**
Liabilities			
Deposits from banks	20	31.018.394	19.214.698
Deposits from customers	20	219.530.941	174.038.081
Obligations under repurchase agreements	21	7.571.439	4.348.200
Loan and advances from banks	22	18.148.601	22.783.118
Interbank money market borrowings	23	30.646.830	30.655.122
Derivative financial instruments	26	410.339	150.673
Debt securities issued	27	16.334.300	12.008.923
Borrowed securities	28	14.374.380	10.000.429
Subordinated liabilities	27	6.182.084	1.004.385
Insurance contract liabilities	13	3.325.812	2.479.385
Provisions	25	1.961.935	1.352.531
Income tax payables	24	46.756	195.638
Deferred tax liability	24	455.760	574.170
Liabilities related to discontinued operations		2.030	-
Other liabilities	25	9.595.579	6.236.132
Total liabilities		**359.605.180**	**285.041.485**
Equity			
Share capital	29	2.578.184	2.578.184
Share premium		39.740	39.737
Reserves	30	4.593.842	3.553.194
Retained earnings		22.066.402	19.931.310
Total equity attributable to equity holders of the Bank		**29.278.168**	**26.102.425**
Non-controlling interests		246.641	210.124
Total equity		**29.524.809**	**26.312.549**
Total liabilities and equity		**389.129.989**	**311.354.034**

The notes on pages 7 to 80 are an integral part of these consolidated year end 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 2018
(Currency - In thousands of Turkish Lira (“TRY”))

	Notes	**1 January - 31 December 2018**	**1 January - 31 December 2017**
Interest income:			
-Interest income on loans		28.994.809	19.060.838
-Interest income on securities		7.153.350	3.767.324
-Interest income on finance leases		272.064	197.704
-Interest income on deposits at banks		767.752	390.202
-Interest income on other money market placements		58.064	57.090
-Other interest income		377.199	194.806
		37.623.238	**23.667.964**
Interest expense:			
-Interest expense on deposits		(20.294.575)	(11.084.754)
-Interest expense on other money market deposits		(5.795.550)	(2.719.811)
-Interest expense on borrowings		(769.204)	(540.285)
-Interest expense on debt securities issued		(1.553.806)	(843.743)
-Other interest expense		(256.471)	(117.289)
		(28.669.606)	**(15.305.882)**
Net interest income		**8.953.632**	**8.362.082**
Fees and commission income	35	2.831.050	2.506.800
Fees and commission expenses	35	(926.687)	(585.666)
Net fee and commission income		**1.904.363**	**1.921.134**
Net trading income from securities		33.081	35.077
Net trading income / (loss) from derivative financial instruments		1.979.221	(195.718)
Foreign exchange gain / (losses), net		(1.780.819)	239.266
Net impairment losses on financial assets		(3.079.004)	(1.115.114)
Income from insurance operations		1.577.499	1.469.041
Cost of insurance operations		(1.303.804)	(1.167.182)
Dividend income		13.185	11.639
Other operating income	33	581.164	381.695
Other operating expenses	34	(5.849.002)	(4.712.481)
Operating profit		**3.029.516**	**5.229.439**
Share of profit of equity-accounted investees		26.620	21.511
Profit before income tax		**3.056.136**	**5.250.950**
Income tax expense	*24*	(368.415)	(1.065.528)
Profit for the year from continuing operations		**2.687.721**	**4.185.422**
Profit for the year from discontinuing operation		10.130	-
Profit for the year		**2.697.851**	**4.185.422**
Other comprehensive income			
Items that will be never classified to profit or loss:			
Re-measurement of employee termination benefits		24.320	14.073
Revaluation differences of property and equipment		211.669	285.864
Related tax		(10.672)	(142.311)
Items that may be reclassified subsequently to profit or loss:			
Fair value reserve (Debt and other instruments at FVTOCI):			
Change in fair value		566.586	171.619
Amount transferred to profit or loss		14.225	(38.564)
Foreign currency translation differences		(54.085)	(4.311)
Related tax		(94.925)	92.102
Other comprehensive income for the period, net of tax		**657.118**	**378.472**
Total comprehensive income for the period		**3.354.969**	**4.563.894**

The notes on pages 7 to 80 are an integral part of these consolidated year end financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
Profit attributable to:			
Equity holders of the Bank		2.673.406	4.172.937
Non-controlling interests		24.445	12.485
Profit for the period		**2.697.851**	**4.185.422**
Total comprehensive income attributable to:			
Equity holders of the Bank		3.330.524	4.552.099
Non-controlling interests		24.445	11.795
Total comprehensive income for the period		**3.354.969**	**4.563.894**
Basic earnings per share (full TRY per share)	**31**	**2,1387**	**3,3383**

The notes on pages 7 to 80 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 END 31 DECEMBER 2018

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

		Total equity attributable to equity holders of the Bank							
				Reserves					
	Notes	Share capital	Share premium	Fair value reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
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 period									
Net profit for the period		-	-	-	-	**4.172.937**	**4.172.937**	**12.485**	**4.185.422**
Other comprehensive income, net of tax									
Re-measurements of defined benefit plans, net of tax		-	-	-	-	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 period		-	-	**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	30	-	-	-	198.610	(213.604)	(14.994)	-	**(14.994)**
Dividends to equity holders	30	-	-	-	-	(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**
Balances at 1 January 2018		**2.578.184**	**39.737**	**(612.931)**	**4.166.125**	**19.931.310**	**26.102.425**	**210.124**	**26.312.549**
Impact of adopting IFRS 9 & 15 at 1 January 2018	4	-	-	-	-	(147.427)	(147.427)	4	**(147.423)**
New balances at 1 January 2018		**2.578.184**	**39.737**	**(612.931)**	**4.166.125**	**19.783.883**	**25.954.998**	**210.128**	**26.165.126**
Total comprehensive income for the period									
Net profit for the period		-	-	-	-	**2.673.406**	**2.673.406**	**24.445**	**2.697.851**
Other comprehensive income, net of tax									
Re-measurements of defined benefit plans, net of tax		-	-	-	19.368	-	19.368	-	**19.368**
Fair value reserve (Debt and other instruments at FVTOCI):									
Net change in fair value		-	-	471.661	-	-	471.661	-	**471.661**
Net amount transferred to profit or loss		-	-	14.225	-	-	14.225	-	**14.225**
Revaluation differences of property and equipment		-	-	-	205.949	-	205.949	-	**205.949**
Foreign currency translation differences		-	-	-	(54.085)	-	(54.085)	-	(54.085)
Total other comprehensive income		-	-	**485.886**	**171.232**	-	**657.118**	-	**657.118**
Total comprehensive income for the period		-	-	**485.886**	**171.232**	**2.673.406**	**3.330.524**	**24.445**	**3.354.969**
Transactions with the owners, recorded directly in equity									
Transfers to other reserves	30	-	-		382.896	(208.575)	174.321	1.564	**175.885**
Dividends to equity holders	30	-	-	-	-	(186.274)	(186.274)	(2.521)	**(188.795)**
Changes in ownership interests in subsidiaries									
Change in non-controlling interests without a change in control		-	-	-	-	-	-	-	-
Other		-	3	-	634	3.962	4.599	13.025	**17.624**
Balances at 31 December 2018		**2.578.184**	**39.740**	**(127.045)**	**4.720.887**	**22.066.402**	**29.278.168**	**246.641**	**29.524.809**

The notes on pages 7 to 80 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 2018

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

	Notes	**1 January - 31 December 2018**	**1 January - 31 December 2017**
Cash flows from operating activities			
Profit for the period		2.697.851	4.185.422
Adjustments for:			
Depreciation and amortisation	34	201.766	178.943
Net impairment loss on loans and advances	11	2.731.351	1.731.696
Net interest income		(8.959.531)	(8.362.082)
Dividend income		(13.185)	(11.639)
Provision for employee termination benefits	34	77.464	98.844
Impairment losses on property and equipment		-	-
Net gain on sale of property and equipment	33	(122.896)	(112.134)
Share of profit of equity-accounted investees		(26.620)	(21.511)
Income tax expense	24	368.415	1.065.528
		(3.045.385)	**(1.246.933)**
Change in financial assets at fair value through profit or loss		(42.439)	(31.389)
Change in due from banks		(11.619)	22.540
Change in loans and advances		(51.561.378)	(46.260.521)
Change in other assets		(9.213.080)	(2.028.911)
Change in deposits from banks		11.890.000	(3.603.141)
Change in deposits from customers		43.814.081	45.457.843
Change in loans and advances from banks		(4.756.024)	(1.527.805)
Change in other liabilities		9.836.632	17.670.819
Interest received		33.712.282	21.730.125
Dividends received		13.185	11.639
Interest paid		(26.586.389)	(14.302.974)
Income tax paid		(172.670)	(541.969)
Employee termination benefits paid	25	(36.263)	(41.125)
Net cash used in operating activities		**3.840.933**	**15.308.198**
Cash flows from investing activities			
Acquisitions of subsidiaries		(310.473)	(14.994)
Acquisitions of FVTOCI investment securities		(12.081.446)	(9.672.067)
Proceeds from sale of FVTOCI investment securities		6.051.624	7.909.271
Acquisitions of amortised cost investment securities		(17.449.447)	(4.893.951)
Proceeds from sale of amortised cost investment securities		6.368.539	2.476.081
Acquisitions of property and equipment	15	(1.093.599)	(551.943)
Proceeds from sale of property and equipment		236.886	199.879
Other cash (used in)/provided from investing activities		(72.480)	(89.366)
Net cash (used in)/provided from investing activities		**(18.350.396)**	**(4.637.090)**
Cash flows from financing activities			
Proceeds from issue of debt securities		8.553.666	9.216.726
Cash used for repayment of debt securities		(2.763.036)	(8.936.020)
Dividends paid	30	(188.795)	(256.584)
Net cash provided from financing activities		**5.601.835**	**24.122**
Net increase/(decrease) in cash and cash equivalents		**(8.907.628)**	**10.695.230**
Cash and cash equivalents at 1 January		27.122.992	15.530.597
Effect of change in currency rate fluctuations on cash held		5.233.224	897.165
Cash and cash equivalents at 31 December 2018		**23.448.588**	**27.122.992**

The notes on pages 7 to 80 are an integral part of these consolidated year end financial statements.

Notes to the consolidated financial statements:

1. Activities of the Bank and the Group

Türkiye Halk Bankası Anonim Şirketi (the "Bank" or "Halkbank") was established in Turkey in accordance with the law no: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank. As of 31 December 2018, the Bank operates with a total of 978 branches consisting of 988 domestic and 6 foreign branches that are 5 in Turkish Republic of Northern Cyprus ("TRNC") and 1 in Bahrain. The Bank has also 3 representative offices that are 1 in England, 1 in Singapore and 1 in Iran. 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, Halk Varlık Kiralama AŞ and Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ.

As per the Higher Council of Privatization decision numbered 2006/69 dated 11 August 2006, the state shares were transferred to the Privatization Administration and 99,9% of the Bank shares were decided to be sold before 25 May 2008 using the block sale method. 13th Department of Council of State with its decision numbered 2006/4258 dated 29 November 2006 decided to cease the execution of the High Council of Privatization's decision numbered 2006/69 dated 11 August 2006.

The first phase of the privatization process of the Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were started to be traded on Borsa İstanbul (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 GYO'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. Between 1 January – 31 December 2018, the Bank paid TRY 53.864 for 0,13% shares of Halkbank A.D. Skopje increased its shares to 99,17%. 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 TRY 14.894 for 17,42% shares of Halkbank A.D. Beograd and increased its shareholding 99,89%. Between 1 January - 31 December 2018, the Parent Bank paid TRY 202.726 for 0,11% shares of Halkbank A.D. Beograd increased its shares to 99,99%.

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 2019.

3. Basis of preparation

These consolidated financial statements are presented in Turkish Lira ("TRY"), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in TRY 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, FVTOCI 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.

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 4.25 –*financial assets and financial liabilities*.

Investments in equity securities were evaluated for impairment on the basis described in Note 4.25 – *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.

Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the management.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques 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 are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

- Level 3: the fair value of the financial assets and financial liabilities are determined where there is no observable market data.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in Note 5 –financial instruments.

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 4.25.

- In classifying financial assets as amortized cost, 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 4.25.

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

3.2. Functional and presentation currency

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TRY). 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 TRY 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 reassesses 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.

The subsidiaries included in consolidation and effective shareholding percentages of the Group as of 31 December 2018 and 31 December 2017 are as follows:

	Place of incorporation	**Direct ownership**		**Indirect ownership**	
		31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	95,32%	94,33%
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	99,16%	99,03%	99,16%	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%	100,00%
Halk Banka A.D. Beograd	Beograd	100,00%	99,89%	100,00%	99,89%
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Varlık Kiralama A.Ş.(*)	Istanbul	100,00%	100,00%	100,00%	100,00%

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

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.

The equity-accounted associates of the Group as of 31 December 2018 and 31 December 2017 are as follows:

		Shareholding interest	
	Place of incorporation	**31 December 2018**	**31 December 2017**
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 FVTOCI, 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.

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

Foreign operations

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

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 2018 and 31 December 2017, foreign currency assets and liabilities of the Group are mainly in US Dollar ("USD") and EUR. The TRY/USD and TRY/EUR exchange rates as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018		**31 December 2017**	
	Period end	**Average**	**Period end**	**Average**
TRY / USD	5,2700	4,8112	3,7900	3,6261
TRY / EUR	6,0265	5,6588	4,5465	4,0942

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 FVTOCI 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 fair value through other comprehensive income financial assets, gains and losses on derivative financial instruments and foreign exchange differences.

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 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.

4.9 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 FVTPL, amortised cost or FVTOCI 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".

4.10 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.

4.11 Property and equipment

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
Safes (vaults)	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.

4.12 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.

4.13 Intangible assets

Intangible assets acquired

Intangible assets acquired separately before 1 January 2006 are carried at restated cost for the effects of inflation in TRY 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.

4.14 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.

4.15 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.

4.15 Impairment of non-financial assets (continued)

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.

4.16 Leases

The Group as the lessee

Operating leases

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

Finance leases

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

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

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

4.17 Leases

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.

4.18 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.

4.18 Financial liabilities (continued)

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.

4.19 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.

4.20 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 25 are reviewed regularly. The carrying value of employee termination benefit provisions as of 31 December 2018 is TRY 550.381 (31 December 2017: TRY 497.405).

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.

4.20 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 2018 and 31 December 2017, 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.

4.21 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.

4.21 Insurance businesses (continued)

Defined contribution plans (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.

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.

4.22 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.

4.23 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.

4.24 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.

4.25 Changes in accounting policies

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Disclosures of IFRS 9 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 in other comprehensive income, with only dividend income generally recognized in profit or loss.

The Group has applied 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. In this respect, the explanations of impacts on equity regarding the adoption of IFRS 9 is given in the Note 4.

Classification and measurement of financial assets:

For the determination of which category a financial instrument shall be classified at initial recognition and whether contractual cash flows represent solely payments of principal and interest in accordance with IFRS 9 Standard is tested by the Group. According to the test results and business model of the Group, financial assets are recognized in the financial statements.

Impairment of financial assets:

IFRS 9 has changed the accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. It is formed an impairment model having three stages based on the change in credit quality since initial recognition. 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 have been divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

4.25 Changes in accounting policies (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

IFRS 15 Revenue from Contracts with Customers stardard provides single and comprehensive model and guidance regarding recognition of revenue and replaces IAS 18 Revenue Standard. The Standard is in effect starting from 1 January 2018 and the positive effect of the Group's financial statements, which have been booked to the opening equity amounting to TRY 8.002 dated 1 January 2018 without restating previous period financial statements.

New Standards not effective as of 1 January 2018

IFRS 16 Leases

IRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. The standard will be effective from annual periods beginning on or after 1 January 2019. The Group elected to apply the simplified transition approach for the first time adoption and will not restate comparative amounts for the prior year. The Group does not expect a significant impact in its financials.

Financial Assets

Classification of the category of a financial instrument at initial recognition depends on both the business model for managing the financial assets and their contractual cash flow characteristics.

Assessment of Business Model

The Group classifies its financial assets in accordance with IFRS 9 through its business model which is used for financial assets management.

The Group's business model is related with how the Group manages its financial assets to generate cash flows. In other terms, the source of cash flows depends on the Group's business model whether the cash flow is generated from contractual terms or through sale of financial asset or both.

Classification of financial assets is made at initial recognition considering the aim of purchase of the financial asset.

The Group's business models are classified in three main categories in accordance with IFRS 9.

1. **A business model whose objective is to hold assets in order to collect contractual cash flows:**

   A business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The purpose of the business model does not require to hold to collect the contractual cash flows of the instruments over their life, even the aim of the business model is to hold the instruments up to maturity for the contractual cash flows. Therefore, even when financial asset sales are anticipated or expected to occur in the future, the business model may still be a model that aims to retain financial assets in order to collect contractual cash flows.

   The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial assets meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4.25 Changes in accounting policies (continued)

2. A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets:

The Group may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Fair value changes of the financial assets that are held within the scope of this business model are accounted for under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Other Business Models:

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The Group makes its decisions on the basis of business model, which is based on the fair value of the assets and manages the assets to obtain their fair value. Therefore, if the financial assets are held for the purpose of obtaining cash flows arising from their sale, the change in fair value are measured at fair value through profit or loss.

Measurement Categories of Financial Assets and Liabilities

As of 1 January 2018, the Group classified all its financial assets based on the business model for managing the financial assets. Accordingly, the financial assets are classified as per IFRS 9 in three main categories listed below:

1. Financial assets measured at amortized cost,
2. Financial assets measured at fair value through other comprehensive income and
3. Financial assets measured at fair value through profit or loss.

IFRS 9, the paragraph 4, explains how financial assets are classified in accordance with methods explained in Article 1 and 2 and other than these financial assets, remaining financial assets are classified in accordance with the method detailed in Article 3.

1. Financial Assets Measured at Amortised Cost

A financial asset is measured at amortized cost if both of the following conditions are met.

a) Asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

b) Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are loans and receivables and financial assets. Subsequent to the initial recognition, financial investments are accounted for at amortised cost calculated by using the effective interest rate method. Loans are initially recognized with their cost and carried at their amortized costs calculated using the internal rate of return subsequent to recognition.

2. Financial Assets Measured at Fair Value Through Other Comprehensive Income

A financial asset is measured if both of the following conditions are met.

a) Financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

b) Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

4.25 Changes in accounting policies (continued)

A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

3. Financial Assets Measured at Fair Value Through Profit or Loss

According to IFRS 9 paragraph 4.1.4, the financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. However, the Group may irrevocably prefer to apply to the financial assets at fair value through other comprehensive income for reflecting future changes in fair value for certain investments in equity instruments that would normally be measured at fair value through profit or loss at the time of initial inception in the financial statements.

Reclassification of Financial Assets in accordance with IFRS 9

Reclassifications and remeasurements during the first time adoption of IFRS 9 Financial Instruments standard and the impairment provision as of 31 December 2017 calculated by the Group and expected loss provision as of 1 January 2018 in accordance with IFRS 9 are reconciled as follows:

	Before IFRS 9 Book Value			**IFRS 9 Book Value**
Assets	**31 December 2017**	**Reclassification Effect**	**Measurement Effect**	**1 January 2018**
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	483.494	-	-	483.494
- Trading securities	*120.563*	-	-	*120.563*
- Derivative financial instruments	*362.931*	-	-	*362.931*
Securities lending transactions	10.000.429	-	-	10.000.429
Investment securities:	39.689.350	-	-	39.689.350
- Debt and other instruments at FVTOCI	-	*17.702.251*	-	*17.702.251*
- Debt and other instruments at amortised cost	-	*21.987.099*	-	*21.987.099*
- Available-for-sale investment securities	*17.702.251*	*(17.702.251)*	-	-
- Held-to-maturity investment securities	*21.987.099*	*(21.987.099)*	-	-
Expected credit losses on financial assets (-)	-	(23.511)	7.229	(16.282)
Loans and advances, net	**207.546.927**	**-**	**-**	**207.407.784**
Loans and advances, gross	*214.165.162*	-	-	*214.165.162*
Specific allowance for impairment on loans	*(4.887.415)*	*4.887.415*	-	-
Portfolio allowance for impairment on loans	*(1.730.820)*	*1.730.820*	-	-
Expected credit losses on cash loans - Stage 1-2-3 (-)	-	*(6.618.235)*	*(139.143)*	*(6.757.378)*
Insurance premium receivables	731.825	-	-	731.825
Investment in equity-accounted investees	357.755	-	-	357.755
Property and equipment	3.746.279	-	-	3.746.279
Intangible assets	145.166	-	-	145.166
Non-current assets held for sale	533	-	-	533
Investment property	910.378	-	-	910.378
Deferred tax assets	465.405	-	-	465.405
Other assets	2.992.980	-	-	2.992.980
Total assets	**311.354.034**	**(23.511)**	**(131.914)**	**311.198.609**

4.25 Changes in accounting policies (continued)

Effects on Equity with IFRS 9 Transition

The Group reflected the classification, measurement and impairment requirements to opening equity without restating previous period financial statements. In this respect, TRY 155.425 arising between the provision for impairments of the previous period of the Group and the provision for the loan losses that is measured in accordance with IFRS 9 impairment model as of 1 January 2018 is classified as "Retained earnings".

Impairment of Financial Assets

As of 1 January 2018, it is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVTOCI, loan commitments and financial guarantee contracts not measured at FVTPL based on IFRS 9 which came into force starting from 1 January 2018. Financial assets measured at fair value are not assessed for impairment.

As of the reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition in accordance with IFRS 9 paragraph 5.5.4. When making the assessment, the Group shall use the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the loss allowance for that financial instrument at an amount equal to 12 month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, the Group measures loss allowance regarding such instrument at an amount equal to lifetime expected credit losses.

The Group calculates the expected credit loss on a collective basis by grouping the financial assets having common credit risk features or on an individual basis.

The Group constituted a policy in order to make an assessment whether the credit risk on a financial instrument has increased significantly since initial recognition by taking into consideration the change in the risk of a default event occurring over the expected life of the financial instrument.

Calculation of expected credit losses

A credit loss is present value of calculated difference between the total cash flows that will occur based on the contractual terms of financial instruments and the total cash flows, which the Group expects to collect, with the initial effective interest rate. The Group calculates expected credit losses based on a probability – weighted estimate of credit losses (the present value of all cash shortfalls) over the expected life of the financial instruments. The Group estimates cash flows over expected life of a financial instrument with the consideration of contractual terms of the financial instrument, and considers the weighted average of the credit losses as the expected default risk as the expected credit loss.

Probability of Default (PD)

It is defined as the probability that the debtor does not fulfill its obligations to the Group or in other words it can not repay its debts to the Group. This ratio is calculated for each loan based on various statistical assumptions depending on the maturity, internal behavioral model, external behavioral model and financial module data. The probability values take a value between 0 and 1, and as the probability value increases, the likelihood of the credit defaulting increases.

Loss given Default (LGD)

This is the parameter indicates the expected economic loss of the Group if the credit defaults. In the case of the credit defaults and the Group collects the entire amount of the default, LGD is zero, in the case of no collection, LGD is 100% percent. LGD rates are reviewed on a maximum of 1 year basis.

4.25 Changes in accounting policies (continued)

Impairment of Financial Assets (continued)

Exposure at Default (EAD)

It is the parameter that indicates how much of a loan will default. The default amount for a spot or installment loan is the amount, which is listed on the payment schedule at the time of default. Additionally, the default amount for the credit cards and limit gaps of overdraft accounts and non-cash loans, are calculated with a parameter called credit conversion rate (LCR). The default risk amount in the future is estimated by calculating by the statistical methods with the credit conversion rate, since it is not known at the time of loan origination due to undrawn commitment for limit of credit cards and overdraft accounts.

12 Month Probability of Default

It is the estimated probability of default occurring within the next 12 months following the balance sheet date. According to Article 5.5.5 of IFRS 9 standard, in the case of that there is no significant increase in credit risk of a financial instrument since its first recognition, the Group shall measure at the provision for loss of the related financial instrument as equal as 12 month expected credit losses.

In the case of a customer or a loan that is classified under Standard Loans (Stage I), the provision for loan is calculated on 365 days even if the maturity of the loan is above 1 year. In the case of maturity of the loan is under 1 year, number of days left to maturity (except revolving loans and credit cards) are used in calculations.

Lifetime PD

It is the estimated probability of default occurring over the remaining life of the financial instrument. According to article 5.5.3 of IFRS 9 standard, in case of a significant increase in credit risk for a financial instrument since its initial recognition, the Group shall measure provision for loss of related financial instrument as equal as expected lifetime probability of default amount.

In the case of a customer or loan is classified as Stage 2 and / or Stage 3, the provision for expected credit loss is measured at the lifetime probability of default. Despite the fact that the methods for used calculation for provision of expected credit loss are similar for Stage 2 and Stage 3 loans, the probability of default for Stage 3 credits is accepted as 100%.

IFRS 9 Standard does not include a direct definition of default, but requires a consistent definition of default to be used in credit risk management. The Group is considering qualitative indicators (eg financial commitments), if appropriate, when defining a default according to article B5.5.37 of IFRS 9, for the purpose of determining the risk of business default and adopts a definition of default, consistent with the definition used for in-house credit risk management purposes for the relevant financial instruments. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Debt defaulted if at least one of the following two conditions occurs.

a) Considering that a debtor is unlikely to pay credit obligations to the Parent Bank and to the Parent Bank’s consolidated financial subsidiaries without using guarantees

b) Considering that a debt having past due more than 90 days to the Parent Bank or its financial subsidiaries

4.25 Changes in accounting policies (continued)

Impairment of Financial Assets (continued)

Lifetime PD (continued)

The expected loan loss provision for the loans classified as non-performing loans (Stage 3) is calculated using the estimation of loss given default (LGD). Aforementioned estimation is based on the historical data on a segment basis and determined by the principle loss charge, being the remaining amount after the collection made within the period after each segment has defaulted.

Low Credit Risk

IFRS 9 standard states that in some cases, the credit risk on a financial instrument can be calculated as low if the financial instrument has a low risk of default when there is no reliable past default data.

According to Article 5.5.20 of IFRS 9, if the entity determines that a financial instrument has a low credit risk as of the reporting date, it assumes that the credit risk on the financial instrument has not increased significantly following its initial recognition in the financial statement. Those transactions in the Group are classified as follows:

a) Central Bank of Republic of Turkey (CBRT) transactions (Currencies held in CBRT and reserve requirements)

b) Securities (Fair value through other comprehensive income and financial assets measured at amortised cost)

a) Treasury Loans (Transactions with Treasury Republic of Turkey)

b) Loans guaranteed by Treasury of Republic of Turkey

The Rules of Significant Increase in Credit Risk

Significant increase in credit risk requires measurement of the Group's provision for expected credit losses at lifetime probability of default instead of 12 month expected credit loss. In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2.

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.

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.

5. Financial risk management (continued)

Credit risk (continued)

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 27,46% (31 December 2017: 24%).

The percentage of the top 100 non-cash loan clients of the Bank to the total non-cash loan portfolio is 44,16% (31 December 2017: 44,37%).

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 18,92% (31 December 2017: 16,92%).

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.

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 (“TRY”))

5. Financial risk management (continued)

Credit risk (continued)

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

	31 December 2018	
	Cash (only banks)	**Non-cash**
Agricultural	1.061.597	193.248
Farming and raising livestock	*968.306*	*80.020*
Forestry	*7.274*	*520*
Fishing	*86.017*	*112.708*
Manufacturing	57.958.246	31.943.932
Mining	*2.542.324*	*564.283*
Production	*43.367.930*	*28.128.642*
Electric, gas and water	*12.047.992*	*3.251.007*
Construction	19.387.087	22.084.627
Services	105.996.409	28.341.503
Wholesale and retail trade	*41.792.804*	*14.027.981*
Hotel, food and beverage services	*13.453.702*	*1.772.291*
Transportation and telecommunication	*12.845.572*	*3.423.963*
Financial institutions	*1.997.824*	*4.246.777*
Real estate and renting services	*31.019.105*	*4.352.270*
Self-employment services	*900.396*	*22.759*
Education services	*2.136.506*	*136.467*
Health and social services	*1.850.500*	*358.995*
Other	19.421.070	1.106.665
Total loans	**203.824.409**	**83.669.975**

	31 December 2017	
	Cash (only banks)	**Non-cash**
Agricultural	953.843	94.689
Farming and raising livestock	*855.496*	*41.547*
Forestry	*5.231*	*183*
Fishing	*93.116*	*52.959*
Manufacturing	46.181.662	21.228.408
Mining	*1.890.118*	*153.717*
Production	*35.864.095*	*17.724.175*
Electric, gas and water	*8.427.449*	*3.350.516*
Construction	15.921.451	16.776.444
Services	82.548.996	20.195.172
Wholesale and retail trade	*33.427.867*	*9.394.163*
Hotel, food and beverage services	*9.783.659*	*899.076*
Transportation and telecommunication	*13.383.176*	*2.051.476*
Financial Institutions	*1.249.920*	*3.523.177*
Real estate and renting services	*20.197.860*	*3.947.795*
Self-employment services	*799.117*	*20.972*
Education services	*1.500.403*	*138.504*
Health and social services	*2.206.994*	*220.009*
Other	13.409.159	492.945
Total loans	**159.015.111**	**58.787.658**

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

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 2018 and 31 December 2017 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 2018	**31 December 2017**
Agricultural	1.262.994	1.580.507
Farming and raising livestock	*1.052.002*	*955.084*
Forestry	*9.200*	*450.725*
Fishing	*201.792*	*174.698*
Manufacturing	97.035.746	73.774.993
Mining	*3.402.407*	*2.259.993*
Production	*79.230.435*	*61.112.745*
Electric, gas and water	*14.402.904*	*10.402.255*
Construction	21.151.192	17.741.804
Services	134.912.169	100.489.446
Wholesale and retail trade	*52.625.140*	*40.689.445*
Hotel, food and beverage services	*15.878.068*	*11.583.010*
Transportation and telecommunication	*16.020.647*	*14.954.621*
Financial institutions	*36.364.308*	*22.757.960*
Real estate and renting services	*7.185.694*	*5.444.398*
Self-employment services	*1.404.770*	*876.371*
Education services	*2.263.850*	*1.626.733*
Health and social services	*3.169.692*	*2.556.908*
Other	183.594.975	142.880.125
Total risk weighted assets	**437.957.076**	**336.466.875**

Information according to geographical concentration:

	31 December 2018	**31 December 2017**
Domestic	424.473.768	332.248.072
EU Countries	5.960.305	1.950.278
OECD Countries(*)	467.574	123.830
USA, Canada	1.051	582.612
Other countries	4.743.721	1.561.561
Investment and associates, subsidiaries and joint ventures	2.310.657	-
Off-shore banking regions	-	522
Total risk weighted assets	**437.957.076**	**336.466.875**

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

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

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, FVTOCI investment securities and amortized cost investment securities do not include overdue and individually impaired assets, as of 31 December 2018 and 31 December 2017.

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

31 December 2018	Between 30 and 60 days	Between 61 and 90 days	Total
Loans and advances	1.789.898	1.345.309	3.135.207
Total	**1.789.898**	**1.345.309**	**3.135.207**

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**

As of 31 December 2018, the fair value of collaterals held against the past due but not yet impaired loans amounts to TRY 16.311.877. The net value and type of the collaterals is as follows:

Collateral type [(1)]	31 December 2018	31 December 2017
Real estate mortgage	9.040.540	3.127.124
Suretyships	346.327	808.779
Salary pledge, vehicle pledge and pledge of commercial undertaking	1.122	139.087
Cheque /bills	73.795	11.068
Financial collaterals (Cash, securities pledge, etc.)	2.902.109	1.671
Other	3.947.984	1.040.753
Total	**16.311.877**	**5.128.482**

(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.

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

5. Financial risk management (continued)

Credit risk (continued)

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

	31 December 2018	31 December 2017
Loans and advances (1) (2)		
Corporate loans	6.593.561	2.513.301
SME loans	185	84
Consumer loans	44.816	28.070
Total	**6.638.562**	**2.541.455**

(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	460.639	**High**		
Risk rating group 2	AA	2.594.239	Risk rating group 1	1	9.410.420
Risk rating group 3	A	8.100.975	Risk rating group 2	2	3.767.874
Risk rating group 4	BBB	15.210.497	**Standard**		
Risk rating group 5	BB	19.261.139	Risk rating group 3	3	4.357.031
Risk rating group 6	B	25.175.816	Risk rating group 4	4	5.689.951
Risk rating group 7	CCC	20.124.867	Risk rating group 5	5	7.237.372
Risk rating group 8	CC	1.940.643	**Below the standard**		
Risk rating group 9	C	46.509	Risk rating group 6	6	13.574.428
			Risk rating group 7	7	10.598.105
Total		**92.915.324**	**Total**		**54.635.181**

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

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 ("TRY"))

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 2018	Derivatives - trading assets	1.062.081	-	1.062.081	-	231.727	830.354
31 December 2017	Derivatives - trading assets	362.931	-	362.931	-	66.553	296.378

					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 2018	Derivatives - trading liabilities	410.339	-	410.339	-	296.569	113.770
31 December 2017	Derivatives - trading liabilities	150.673	-	150.673	-	104.613	46.060

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

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 amortised cost investment securities and FVTOCI investment securities.

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

31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	182.643.839	49.115.829	19.099.012	1.146.346	19.202	252.024.228	250.549.335
Obligations under repurchase agreements	7.762.847	348.648	-	-	-	8.111.495	7.571.439
Loans and advances from banks	1.165.345	1.831.553	4.160.500	6.471.364	5.467.120	19.095.882	18.148.601
Interbank money market borrowings	-	30.646.830	-	-	-	30.646.830	30.646.830
Debt securities issued	1.691.031	1.915.256	3.073.272	11.429.907	-	18.109.466	16.334.300
Total	**193.263.062**	**83.858.116**	**26.332.784**	**19.047.617**	**5.486.322**	**327.987.901**	**323.250.505**

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**

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

5. Financial risk management (continued)

Liquidity risk (continued)

Analysis of the Group's derivative financial instruments notional amounts according to their remaining maturities:

31 December 2018	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	3.605.673	870.825	952.254	-	-	5.428.752
Forward contracts – sell	1.731.132	652.669	850.428	-	-	3.234.229
Swaps – buy	5.474.414	447.174	1.003.129	1.370.200	-	8.294.917
Swaps – sell	5.469.755	558.552	1.113.630	843.910	-	7.985.847
Credit default swap – buy	-	-	-	-	-	-
Credit default swap – sell	-	-	-	-	-	-
Forward precious metal – buy	89.699	-	-	-	-	89.699
Forward precious metal – sell	1.925.522	224.248	-	-	-	2.149.770
Money buy options	218.558	49.200	2.661.875	-	-	2.929.633
Money sell options	218.538	49.200	2.661.875	-	-	2.929.613
Interest rate swap-buy	-	-	-	2.278.648	6.417.794	8.696.442
Interest rate swap-sell	-	-	-	2.278.648	6.417.794	8.696.442
Total	**18.733.291**	**2.851.868**	**9.243.191**	**6.771.406**	**12.835.588**	**50.435.344**

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**

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

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 2018								
Assets								
Cash on hand	4.591.888	-	-	-	-	-	-	4.591.888
Balances with and reserve deposits at Central Bank	321.544	30.534.902	-	127.280	-	-	-	30.983.726
Due from banks	2.225.644	2.966.445	2.030	15.698	38	-	-	5.209.855
Financial assets at fair value through profit or loss	6.150	513.539	378.869	14.652.233	27.548	21.478	1.199	15.601.016
Loans and advances	3.160.268	15.139.374	15.195.175	77.568.360	113.285.389	34.259.955	-	258.608.521
Investments securities	-	267.274	1.147.679	4.086.231	26.600.348	28.956.952	134.029	61.192.513
Other assets	245.776	137.085	916.130	311.689	591.977	30.996	10.708.817	12.942.470
Total assets	**10.551.270**	**49.558.619**	**17.639.883**	**96.761.491**	**140.505.300**	**63.269.381**	**10.844.045**	**389.129.989**
Liabilities and equity								
Deposits from banks	20.673.730	8.787.811	1.541.557	15.296	-	-	-	31.018.394
Deposits from customers	32.418.383	121.328.054	46.774.591	17.962.662	1.028.477	18.774	-	219.530.941
Obligations under repurchase agreements	-	4.580.330	340.631	-	2.123.478	527.000	-	7.571.439
Loans and advances from banks	36	985.835	1.801.634	3.909.489	5.748.994	5.702.613	-	18.148.601
Interbank money market borrowings	-	30.646.830	-	-	-	-	-	30.646.830
Debt securities issued	-	1.682.721	2.026.971	2.427.811	10.196.797	-	-	16.334.300
Other liabilities (1)	1.294.385	7.090.927	486.156	17.323.238	2.053.242	8.106.727	29.524.809	65.879.484
Total liabilities and equity	**54.386.534**	**175.102.508**	**52.971.540**	**41.638.496**	**21.150.988**	**14.355.114**	**29.524.809**	**389.129.989**
Liquidity gap	**(43.835.264)**	**(125.543.889)**	**(35.331.657)**	**55.122.995**	**119.354.312**	**48.914.267**	**(18.680.764)**	**-**

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

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

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 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	550.645	12.823.844	14.033.807	61.115.546	91.586.766	27.436.319	-	207.546.927
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	265.471	176.816	46.383	6.706.556	9.350.321
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
Loan 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 [1]	584.063	3.555.226	71.604	15.749.576	1.509.061	523.813	26.312.549	48.305.892
Total liabilities and equity	**29.900.205**	**151.977.252**	**43.075.481**	**38.584.436**	**15.535.987**	**5.964.981**	**26.315.692**	**311.354.034**
Liquidity gap	**(23.937.475)**	**(97.988.180)**	**(28.105.802)**	**36.380.846**	**91.111.438**	**42.064.482**	**(19.525.309)**	**-**

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

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

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 29511 on 23.10.2015.

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 present value of portfolio subject to market risk.

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 and clearing risk are calculated by using the standard method.

Besides standard method, The Value at Risk (VaR) is calculated by using internal model methods which are validated by scenario analysis and stress tests. The VaR is calculated by using historical simulation and parametric approach. Due to internal market risk limits approved by the Board of Directors, the parametric approach results of VaR 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:

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

	31 December 2018			**31 December 2017**		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest rate risk	114.286	201.906	51.054	160.610	222.004	102.924
Share risk	13.271	19.396	8.550	9.464	17.056	7.976
Currency risk	179.780	377.688	105.377	126.586	274.400	94.233
Commodity risk	-	-	-	-	-	-
Settlement risk	-	-	-	-	-	-
Options risk	21.262	36.668	3.613	7.741	24.445	925
Amount subject to total risk	**328.599**	**635.658**	**168.594**	**304.401**	**537.905**	**206.058**

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 ("TRY"))

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 TRY 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	
		2018	**2017**
USD	10% increase	(45.255)	(13.617)
EUR	10% increase	3.806	(36.471)
Other	10% increase	106.615	57.344

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

	EUR	**USD**	**Other FC**	**Total**
31 December 2018				
Assets				
Cash on hand	804.954	1.958.411	568.709	3.332.074
Balances with Central Bank	4.464.690	7.142.606	-	11.607.296
Reserve deposits at Central Bank	10.575.608	541.421	5.540.230	16.657.260
Due from banks	686.997	3.625.590	652.192	4.964.779
Financial assets at fair value through profit or loss	-	21.455	1.125	22.580
Loans and advances	47.357.714	41.774.693	2.872.554	92.004.961
Investment securities	840.657	11.570.955	891.807	13.303.419
Investment in equity- accounted investees	431.547	-	-	431.547
Property and equipment	-	-	124.956	124.956
Other assets	323.045	1.793.792	52.881	2.169.718
Total assets	**65.485.213**	**68.428.923**	**10.704.454**	**144.618.590**
Liabilities				
Deposits from banks	8.688.941	5.570.330	783.313	15.042.584
Deposits from customers	47.083.052	44.091.737	6.853.596	98.028.385
Obligations under repurchase agreements	-	5.402.273	-	5.402.273
Loan and advances from banks	8.714.381	5.253.406	20.069	13.987.856
Debt securities issued	-	12.024.839	-	12.024.839
Other liabilities	574.870	779.147	142.723	1.496.740
Total liabilities	**65.061.244**	**73.121.732**	**7.799.701**	**145.982.677**
Net on balance sheet position	**423.969**	**(4.692.809)**	**2.904.753**	**(1.364.087)**
Net off balance sheet position	**(385.913)**	**4.240.264**	**(1.838.600)**	**2.015.751**
Derivative financial assets	1.504.108	10.029.426	966.638	12.500.172
Derivative financial liabilities	1.890.021	5.789.162	2.805.238	10.484.421
Non-cash loan	23.171.689	21.031.521	2.481.487	46.684.697

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

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 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
Non-cash loan	12.618.873	16.362.849	1.714.234	30.695.956

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

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 2018 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	TRY	500	(4.147.592)	(11,17%)
		(400)	3.990.457	10,75%
2	EURO	200	610.795	1,64%
		(200)	(654.359)	(1,76%)
3	USD	200	(1.027.985)	(2,77%)
		(200)	1.493.270	4,02%
	Total (For negative shocks)		**4.829.368**	**13,01%**
	Total (For positive shocks)		**(4.564.782)**	**(12,30%)**

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	TRY	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%)**

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

5. Financial risk management (continued)

Interest rate risk

Average interest rates applied to financial instruments:

Current period	EURO	USD	JPY	TRY
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey [5]	-	2,00	-	13,00
Due from other banks and financial institutions[1]	0,19	2,22	-	19,58
Financial assets at fair value through profit and loss	-	6,62	-	19,73
Money market placements	-	-	-	22,00
FVTOCI financial assets	4,05	5,83	-	22,81
Loans[2]	5,22	7,47	1,54	16,69
Amortized cost investments	-	5,61	-	21,93
Liabilities				
Bank deposits	2,72	5,30	-	24,33
Other deposits [4]	2,48	4,64	0,25	20,63
Money market borrowings	-	4,55	-	23,35
Sundry creditors[3]	-	-	-	4,75
Bonds issued	-	4,46	-	16,87
Funds provided from other financial institutions[4]	1,37	3,17	1,40	21,95

Prior Period	EURO	USD	JPY	TRY
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

[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 2018.

[4] Customer based calculated interest rates are applied to TRY and FC deposits as of 31 December 2018.

[5] Required reserve ratio of the Central Bank of TRNC and Central Bank of Macedonia.

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

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 2018							
Assets							
Cash on hand	-	-	-	-	-	4.591.888	4.591.888
Balances with and reserve deposits at Central Bank	16.093.521	-	-	-	-	14.890.205	30.983.726
Due from banks	3.233.834	-	15.421	-	-	1.960.600	5.209.855
Financial assets at fair value through profit or loss	512.458	406.232	277.252	185	21.478	14.383.411	15.601.016
Loans and advances	40.464.724	34.427.744	100.296.021	63.187.946	14.453.851	5.778.235	258.608.521
Investment securities	592.227	18.018.228	8.807.826	12.853.165	20.814.057	107.010	61.192.513
Other assets	952.046	828.385	185.299	41.429	1.328	10.933.983	12.942.470
Total assets	**61.848.810**	**53.680.589**	**109.581.819**	**76.082.725**	**35.290.714**	**52.645.332**	**389.129.989**
Liabilities and equity							
Deposits from banks	8.733.726	1.535.846	14.896	-	-	20.733.926	31.018.394
Deposits from customers	120.338.792	46.331.914	17.657.731	1.021.878	18.037	34.162.589	219.530.941
Obligations under repurchase agreements	4.580.330	340.631	-	2.123.478	527.000	-	7.571.439
Loans and advances from banks	1.166.612	5.804.740	4.209.579	3.149.178	3.627.999	190.493	18.148.601
Interbank money market borrowings	30.646.830	-	-	-	-	-	30.646.830
Debt securities issued	1.682.721	2.026.971	2.427.811	10.196.797	-	-	16.334.300
Other liabilities [1]	3.574.149	52.464	1.858.456	14.641.120	6.870.185	38.883.110	65.879.484
Total liabilities and equity	**170.723.160**	**56.092.566**	**26.168.473**	**31.132.451**	**11.043.221**	**93.970.118**	**389.129.989**
On balance sheet interest sensitivity gap-Long	-	-	83.413.346	44.950.274	24.247.493	-	152.611.113
On balance sheet interest sensitivity gap-Short	(108.874.350)	(2.411.977)	-	-	-	(41.324.786)	(152.611.113)
Off balance sheet interest sensitivity gap-Long	1.131.188	1.413.449	4.506.341	1.139.324	3.208.897	13.021.620	24.420.819
Off balance sheet interest sensitivity gap-Short	(745.075)	(1.049.773)	(4.084.721)	(1.983.234)	(3.208.897)	(12.906.156)	(23.977.856)
Total position	**(108.488.237)**	**(2.048.301)**	**83.834.966**	**44.106.364**	**24.247.493**	**(41.209.322)**	**442.963**

[1] Shareholders' equity is presented in the "non-interest bearing" column.

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

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 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	93.198.317	23.410.774	47.480.013	32.387.742	8.117.257	2.952.824	207.546.927
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	265.471	176.816	46.383	8.298.204	9.350.321
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 (1)	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) Shareholders' equity is presented in the "non-interest bearing" column.

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

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 2018 and 31 December 2017, its capital adequacy ratio is above 12%.

The Bank's consolidated regulatory capital position at 31 December 2018 and 31 December 2017 was as follows:

	31 December 2018	31 December 2017
Tier 1 capital	29.034.181	25.112.196
Tier 2 capital	8.396.621	3.317.157
Deductions from capital	(9.972)	(14.057)
Total regulatory capital	**37.420.830**	**28.415.296**
Risk-weighted assets	252.966.471	187.858.563
Value at market risk	3.869.238	3.629.588
Operational risk	18.548.003	14.724.338
Counterparty credit risk and the amount of the discount threshold under the equity (subject to a 250% risk weight)	4.749.069	2.815.793
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13,36%	13,59%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	10,36%	12,01%

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 2018	31 December 2017	31 December 2018	31 December 2017
Financial assets				
Cash on hand	4.591.888	2.208.138	4.591.888	2.208.138
Balances with Central Bank	14.074.205	17.658.013	14.074.205	17.658.013
Reserve deposits at Central Bank	16.909.521	16.815.227	16.909.521	16.815.227
Due from banks	5.209.855	7.602.135	5.209.855	7.602.135
Loans and advances	255.628.001	205.032.373	247.905.877	218.514.906
Investment securities				
-Amortized cost investment securities	*56.321.597*	*21.987.099*	*50.365.149*	*21.483.366*
Finance lease receivables	2.980.520	2.514.554	2.980.520	2.514.554
	355.715.587	**273.817.539**	**342.037.015**	**286.796.339**
Financial liabilities				
Deposits from banks	31.018.394	19.214.698	31.239.917	19.244.166
Deposits from customers	219.530.941	174.038.081	221.013.441	174.304.987
Obligations under repurchase agreements	7.571.439	4.348.200	7.571.439	4.343.675
Loans and advances from banks	18.148.601	22.783.118	15.621.467	21.126.639
Interbank money market borrowings	30.646.830	30.655.122	30.813.408	30.623.219
Debt securities issued	16.334.300	12.008.923	20.664.444	10.798.742
	323.250.505	**263.048.142**	**326.924.116**	**260.441.428**

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, FVTOCI investment securities and amortized cost 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 with 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.

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 ("TRY"))

5. Financial risk management (continued)

Classification of fair value measurement (continued)

Classification requires using observable market data if possible.

31 December 2018	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 [1]	1.160.431	98.350	1.062.081	-	1.160.431
Debt securities	62.557	62.557	-	-	62.557
Derivative financial assets	1.062.081	-	1.062.081	-	1.062.081
Share certificates	1.199	1.199	-	-	1.199
Other securities	34.594	34.594	-	-	34.594
FVTOCI financial assets [2]	4.754.158	4.754.158	-	-	4.754.158
Debt securities	4.754.158	4.754.158	-	-	4.754.158
Other securities	-	-	-	-	-
Total financial assets	**5.914.589**	**4.852.508**	**1.062.081**	**-**	**5.914.589**
Financial liabilities at fair value through profit/loss:					
Derivative financial liabilities	410.339	-	410.339	-	410.339
Total financial liabilities	**410.339**	**-**	**410.339**	**-**	**410.339**

(1) As of 31 December 2018, marketable securities amounting to TRY 66.205 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(2) As of 31 December 2018, share certificates amounting to TRY 116.758 in FVTOCI financial assets are not included in the above table, which are measured at cost.

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 [1]	472.916	109.985	362.931	-	472.916
Debt securities	*94.898*	*94.898*	-	-	*94.898*
Derivative financial assets	*362.931*	-	*362.931*	-	*362.931*
Share certificates	*1.240*	*1.240*	-	-	*1.240*
Other securities	*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	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 TRY 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 TRY 79.099 in available for sale financial assets are not included in the above table, which are measured at cost.

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

6. Financial instruments

Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			**Fair value**			
Financial assets	**Loans and receivables**	**Investments, including derivatives**	**Total**	**Level 1[(1) (2)]**	**Level 2**	**Level 3**	**Total**
31 December 2018							
Due from banks (including central banks)	36.193.581	-	36.193.581	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities	-	164.555	164.555	98.350	-	-	98.350
-Derivative financial instruments	-	1.062.081	1.062.081	-	1.062.081	-	1.062.081
Loans and advances	258.608.521	-	258.608.521	-	-	-	-
Investment securities:							
- Debt and other instruments at FVTOCI	-	4.870.916	4.870.916	4.754.158	-	-	4.754.158
- Debt and other instruments at amortised cost	-	56.321.597	56.321.597	-	-	-	-
Insurance premium receivables	1.302.817	-	1.302.817	-	-	-	-
Total financial assets	**296.104.919**	**62.419.149**	**358.524.068**				
31 December 2017							
Due from banks (including central banks)	42.075.375	-	42.075.375	-	-	-	-
Financial assets at fair value through profit or loss:							-
-Trading securities	-	*120.563*	*120.563*	*109.985*	-	-	*109.985*
-Derivative financial instruments	-	*362.931*	*362.931*	-	*362.931*	-	*362.931*
Loans and advances	207.546.927	-	207.546.927	-	-	-	-
Investment securities:							
-Available-for-sale investment securities	-	*17.702.251*	*17.702.251*	*17.623.152*	-	-	*17.623.152*
-Held-to-maturity investment securities	-	*21.987.099*	*21.987.099*	-	-	-	-
Insurance premium receivables	731.825	-	731.825	-	-	-	-
Total financial assets	**250.354.127**	**40.172.844**	**290.526.971**				

(1) As of 31 December 2018, marketable securities amounting to TRY 66.205 (31 December 2017: TRY 10.578) that are measured at cost, are not included in financial assets at fair value through profit or loss.

(2) As of 31 December 2018 share certificates amounting to TRY 116.758 (31 December 2017: TRY 79.099) in debt and other instruments at FVTOCI are not included in the above table, which are measured at cost.

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

6. Financial instruments (continued)

Carrying amounts and fair values *(continued)*

	Carrying amount			Fair value			
Financial liabilities	**Loans and borrowings**	**Derivatives**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2018							
Deposits from banks	31.018.394	-	31.018.394	-	-	-	-
Deposits from customers	219.530.941	-	219.530.941	-	-	-	-
Obligations under repurchase agreements	7.571.439	-	7.571.439	-	-	-	-
Loans and advances from banks	18.148.601	-	18.148.601	-	-	-	-
Interbank money market borrowings	30.646.830	-	30.646.830	-	-	-	-
Derivative financial instruments	-	410.339	410.339	-	410.339	-	410.339
Debt securities issued	16.334.300	-	16.334.300	-	-	-	-
Total financial liabilities	**323.250.505**	**410.339**	**323.660.844**				
31 December 2017							
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	-	150.673	-	150.673
Debt securities issued	12.008.923	-	12.008.923	-	-	-	-
Total financial liabilities	**263.048.142**	**150.673**	**263.198.815**				

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

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 2018	Corporate	Commercial	Entrepreneur	Treasury /Investment (2)	Other (1)	Group
Interest income	3.690.929	5.295.797	20.166.245	7.788.094	682.173	37.623.238
Interest expenses	(2.028.814)	(1.384.517)	(15.455.276)	(9.430.905)	(370.094)	(28.669.606)
Net interest income	**1.662.115**	**3.911.280**	**4.710.969**	**(1.642.811)**	**312.079**	**8.953.632**
Net fee and commission income	361.880	330.610	979.116	431.595	(198.838)	1.904.363
Net trading income from securities	-	-	34	33.047	-	33.081
Net trading income from derivative transactions	-	-	1.039	1.974.619	3.563	1.979.221
Foreign exchange gains/ (losses), net	3.364	11.664	1.023.418	(2.847.859)	28.594	(1.780.819)
Net impairment losses on loans and advances	(424.374)	(565.176)	(1.042.652)	(828.825)	(217.977)	(3.079.004)
Income from insurance operations	-	-	-	-	1.577.499	1.577.499
Cost of insurance operations	-	-	-	-	(1.303.804)	(1.303.804)
Dividend income	-	-	-	12.796	389	13.185
Other operating income & share of profit of equity-accounted investees	38.566	31.287	87.604	138.566	311.761	607.784
Other operating expenses	(30.734)	(68.133)	(1.733.811)	(2.982.679)	(1.033.645)	(5.849.002)
Profit before income tax	**1.610.817**	**3.651.532**	**4.025.717**	**(5.711.551)**	**(520.379)**	**3.056.136**
Income tax charge	-	-	-	(218.543)	(149.872)	(368.415)
Profit for the period	**1.610.817**	**3.651.532**	**4.025.717**	**(5.930.094)**	**(670.251)**	**2.687.721**

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

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

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

7. Operating segments (continued)

31 December 2017	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment [2]**	**Other [1]**	**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 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 operating income & share of profit of equity-accounted investees	42.811	12.593	60.560	46.108	241.134	403.206
Other operating 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 charge	-	-	-	(996.443)	(69.085)	(1.065.528)
Profit for the period	**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 and Halk Faktoring AŞ and Bileşim AŞ transactions are shown in other column.

[2] Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Banka AD, Beograd and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

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

7. Operating segments (continued)

The segment assets and liabilities as at 31 December 2018 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment [1]	Other[1]	Group
Segment assets	42.722.596	52.264.875	163.716.225	123.759.014	6.217.909	388.680.619
Investment in equity-accounted investees	-	-	-	449.370	-	449.370
Total assets	**42.722.596**	**52.264.875**	**163.716.225**	**124.208.384**	**6.217.909**	**389.129.989**
Segment liabilities	56.909.371	31.060.536	158.425.226	105.155.669	8.054.378	359.605.180
Total liabilities	**56.909.371**	**31.060.536**	**158.425.226**	**105.155.669**	**8.054.378**	**359.605.180**

[1] Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under "Treasury / Investment" column.

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.

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 2018 is mainly occurred in Turkey.

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

8. Cash on hand

At 31 December 2018 and 31 December 2017, cash on hand comprised the following:

	31 December 2018	31 December 2017
Cash on hand		
- Turkish Lira	*1.259.794*	*1.155.032*
- Foreign currency	*3.262.099*	*1.043.368*
Precious metals (gold)	69.975	9.731
Other liquid assets	20	7
Total cash on hand	**4.591.888**	**2.208.138**

9. Balances with Central Bank

	31 December 2018	31 December 2017
Unrestricted balances with Central Bank		
Demand deposits – Turkish Lira	2.466.909	11.647.494
Demand deposits – Foreign currency	11.607.296	6.010.519
	14.074.205	**17.658.013**
Reserve deposits		
Reserve deposits – Turkish Lira	252.281	114.965
Reserve deposits – Foreign currency	16.657.240	16.700.262
	16.909.521	**16.815.227**
Total balances with Central Bank	**30.983.726**	**34.473.240**

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TRY, USD and/or standard gold at the rates between 1,5% and 8% according to their maturities (31 December 2017: between 4% and 10,5% according to their maturities), foreign currency liabilities in USD, EUR and/or standard gold at the rates between 4% and 20% according to their maturities (31 December 2017: between 4% and 24% according to their maturities), as per the Communiqué no.2013/15 “Reserve Deposits” of the Central Bank of Turkey. The interest related to the reserve requirements set as TRY is paid at a rate of 1300 basis points as of 21 September 2018.

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 USD 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 on 18 December 2017).

With the decision No.1005 dated 14 August 2018 of the Turkish Republic of Northern Cyprus, reserve requirement ratio is between 4% and 7% for TRY 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 (“TRY”))

10. Due from banks

	31 December 2018	31 December 2017
Domestic banks		
Demand deposits – Turkish Lira	1.030	36.756
Demand deposits – Foreign currency	7.072	117.672
Time deposits – Turkish Lira	4.011	565.848
Time deposits – Foreign currency	2.635.743	4.009.197
	2.647.856	**4.729.473**
Foreign banks		
Demand deposits – Turkish Lira	1.855.818	70.399
Demand deposits – Foreign currency	313.229	1.230.333
Time deposits – Turkish Lira	200.134	5.157
Time deposits – Foreign currency	127.500	278.605
	2.496.681	**1.584.494**
Money market placements	**65.318**	**1.288.168**
Total due from banks	**5.209.855**	**7.602.135**

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 TRY 5.194.119 as at 31 December 2018 (31 December 2017: TRY 7.583.028).

11. Loans and advances to customers

As at 31 December 2018 and 31 December 2017, all the loans and advances to customers are at amortized cost.

	31 December 2018	31 December 2017
Performing loans	258.352.897	207.868.756
Non-performing loans	9.282.998	6.296.406
Gross amount	**267.635.895**	**214.165.162**
ECL on cash loans - Stage 3	(6.782.554)	-
ECL on cash loans - Stage 1 & 2	(2.244.820)	-
Portfolio allowance for impairment on loans	-	(1.730.820)
Specific allowance for impairment on loans	-	(4.887.415)
Carrying amount	**258.608.521**	**207.546.927**

The movement of loss allowances

	1 January- 31 December 2018	1 January- 31 December 2017
Balance on 1 January	(6.618.235)	(5.614.702)
Impact of adopting IFRS 9 at 1 January	(139.143)	-
New balance on 1 January	**(6.757.378)**	**(5.614.702)**
Net impairment loss/reversals for the period:	(2.269.996)	(1.003.533)
- Net charge for the period	(2.731.351)	(1.731.696)
- Prior years recoveries and reversals including NPL sales	461.355	728.163
Balance at end of the period	**(9.027.374)**	**(6.618.235)**

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

11. Loan and advances to customers (continued)

	31 December 2018	31 December 2017
Short term loans		
Guaranteed export loans	4.407.654	3.374.344
Other guaranteed loans	33.979.271	25.745.054
Other non-guaranteed loans	10.501.676	8.684.930
Loans provided to financial sector	585.282	34.572
Loans provided to foreign institutions	308.273	260.582
Non-guaranteed export loans	835.210	436.829
Finance lease receivables	924.391	748.685
Factoring receivables	1.402.148	1.211.932
Interest accruals	779.178	574.126
	53.723.084	**41.071.054**
Medium and long term loans		
Guaranteed other investment and operating loans	138.197.798	113.329.933
Other non-guaranteed loans	59.065.670	47.122.229
Loans given to foreign institutions	1.742.197	1.347.533
Loans given to financial sector	414.333	795.649
Finance lease receivables	1.888.054	1.444.040
Interest accruals	3.321.761	2.436.489
	204.629.813	**166.475.873**
Total performing loans and advances	**258.352.897**	**207.546.927**

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

11. Loan and advances to customers (continued)

Financial Lease Receivables

Maturity structure of investments on financial lease:

	31 December 2018		**31 December 2017**	
	Gross	**Net**	**Gross**	**Net**
Less than 1 year	1.285.510	1.020.557	958.715	798.268
Between 1-4 years	1.931.674	1.487.866	1.599.672	1.289.512
More than 4 years	648.917	472.097	452.146	426.774
Total	**3.866.101**	**2.980.520**	**3.010.533**	**2.514.554**

Information on gross investments of financial lease:

	31 December 2018	**31 December 2017**
Gross financial lease investment	3.866.101	3.010.533
Unearned revenues from financial lease	(885.581)	(495.979)
Net finance lease receivable	**2.980.520**	**2.514.554**

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

	31 December 2018	**31 December 2017**
Non-performing financial lease receivables	574.404	303.328
ECL/Specific provisions	(406.329)	(226.693)
Total	**168.075**	**76.635**

The movement in the allowance for impairment on finance lease receivables for the year ended 31 December 2018 and 31 December 2017 are as follows:

	1 January – 31 December 2018	**1 January – 31 December 2017**
Balance on 1 January	(226.693)	(214.397)
Net impairment loss for the year:	(179.636)	(12.296)
- Charge for the year	(183.322)	*(17.832)*
- Recoveries and reversals	3.686	*5.536*
Total	**(406.329)**	**(226.693)**

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

12. Securities portfolio

Debt and other instruments at FVTOCI

At 31 December 2018 and 31 December 2017, debt and other instruments at FVTOCI portfolio comprised the following:

	31 December 2018	31 December 2017
Treasury bills and government bonds	4.758.819	17.613.370
Equity shares	112.097	88.881
Share certificates not quoted on a stock exchange	*134.182*	*106.162*
Allowance for impairment on equity shares	*(22.085)*	*(17.281)*
Total	**4.870.916**	**17.702.251**

Debt and other instruments at FVTOCI include securities given as collateral amounting to TRY 732.828 (31 December 2017: TRY 12.097.899). As of 31 December 2018, debt and other instruments at FVTOCI include securities pledged under repurchase agreements amounting to TRY 438.039 (31 December 2017: TRY 4.463.109).

Debt and other instruments at amortised cost

	31 December 2018	31 December 2017
Debt securities:		
Quoted on a stock exchange	56.134.932	21.834.674
Not quoted	196.413	152.425
ECL on amortised cost portfolio	(9.748)	-
Total	**56.321.597**	**21.987.099**

Debt and other instruments at amortised cost comprise the following items:

	31 December 2018	31 December 2017
Government bonds	56.269.708	21.943.704
Other securities	61.637	43.395
ECL on amortised cost portfolio	(9.748)	-
Total	**56.321.597**	**21.987.099**

Debt and other instruments at amortised cost include securities pledged under repurchase agreements and given as collateral amounting to TRY 10.408.278 and TRY 39.711.729 (31 December 2017: TRY 1.204.712 and TRY 20.522.556) respectively.

The movements of debt and other instruments at amortised cost in the period ended 31 December 2018 and 31 December 2017 are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Beginning balance	21.987.099	18.344.626
Foreign currency differences	2.031.757	234.386
Purchases during the period (1) (2) (3)	39.018.124	5.884.168
Disposals through sales and redemptions	(6.705.635)	(2.476.081)
ECL on amortised cost portfolio	(9.748)	-
Balance at the end of the period / year	**56.321.597**	**21.987.099**

(1) Interest income accrual differences between 31 December 2018 amounting to TRY 5.458.441 and 31 December 2017 amounting to TRY 2.902.480 have been included in purchases during the period row

(2) The Parent Bank reclassified the government bonds amounting to TRY 18.965.006 thousand, which were previously classified under debt and other instruments at FVTOCI into debt and other instruments at amortised cost on 23 May 2018.

(3) The Group issued subordinated debts to a group accounted for under "Subordinated liabilities" with two transactions in 2018, in exchange acquired government securities, as disclosed under "debt and other instruments at amortised cost", from the same group as part of a qualified sale and purchase transition differing from market.

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

13. Insurance receivables and insurance contract liabilities

Insurance receivables

At 31 December 2018 and 31 December 2017, insurance receivables comprised the following:

	31 December 2018	31 December 2017
Receivables from reinsurance and insurance companies	956.864	559.933
Receivables from agencies, brokers and intermediaries	352.831	179.072
Cash deposited to insurance and reinsurance companies	50.409	30.661
Total insurance receivables	**1.360.104**	**769.666**
Allowance for non-performing insurance receivables	(57.287)	(37.841)
Insurance receivables, net	**1.302.817**	**731.825**

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

	31 December 2018	31 December 2017
Mortgage notes	9.257	9.737
Letters of guarantees	7.697	5.863
Treasury bills and government bonds	1.702	1.235
Other guarantees	252	243
Total	**18.908**	**17.078**

The movement in the allowance for impairment in respect of insurance receivables for the year ended 31 December 2018 and 31 December 2017 are as follows:

	1 January – 31 December 2018	1 January – 31 December 2017
Balance at 1 January	37.841	28.046
Impairment loss recognised	19.456	12.890
Collections during the period	(10)	(3.095)
Balance at 31 December	**57.287**	**37.841**

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

13. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities

Insurance technical reserves as of 31 December 2018 and 31 December 2017 are detailed in the tables below:

	31 December 2018	31 December 2017
Life mathematical reserve	352.187	330.550
Unearned premiums reserve	1.123.858	918.924
Claims provision	1.810.278	1.206.061
Unexpired risk reserve	17.019	8.739
Other technical reserves	22.471	12.651
Total technical reserve	**3.325.812**	**2.476.925**
Other insurance liabilities	-	2.460
Total insurance contract liabilities	**3.325.812**	**2.479.385**

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2018	31 December 2017
Demir-Halk Bank NV	431.547	341.485
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	15.754	15.232
Türk P ve I Sigorta AŞ	2.069	1.038
Equity accounted investees	**449.370**	**357.755**

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
2018				
Demir-Halk Bank NV	30,00%	9.681.102	1.438.489	84.803
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	50.811	50.059	1.659
Türk P ve I Sigorta AŞ	16,67%	41.554	12.414	3.891
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

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

15. 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 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**
Balance at 1 January 2018	2.803.447	152.981	716.681	1.011.364	4.684.473
Additions	133.410	45.999	674.609	239.581	1.093.599
Disposals	(11.929)	(290)	(181.237)	(105.730)	(299.186)
Revaluation surplus	230.173				230.173
Transfers	--	--	4.753	2.574	7.327
Balance at 31 December 2018	**3.155.101**	**198.690**	**1.214.806**	**1.147.789**	**5.716.386**
Depreciation and impairment losses					
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)**
Balance at 1 January 2018	(169.711)	(89.266)	(21.420)	(648.180)	(928.577)
Depreciation for the year	(18.088)	(29.362)	(8.141)	(135.931)	(191.522)
Disposals	781	1.676	5.259	52.331	60.047
Revaluation surplus	(12.463)	-	-	-	(12.463)
Transfers	-	-	-	-	-
Balance at 31 December 2018	**(199.481)**	**(116.952)**	**(24.302)**	**(731.780)**	**(1.072.515)**
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)**
Provision for impairment at 1 January 2018	**-**	**-**	**(9.617)**	**-**	**(9.617)**
Additions	-	-	-	-	-
Disposals	-	-	2.253	-	2.253
Transfers	-	-	-	-	-
Total provision for impairment at 31 December 2018	**-**	**-**	**(7.364)**	**-**	**(7.364)**
Carrying amounts					
At 1 January 2017	**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**
At 31 December 2018	**2.955.620**	**81.738**	**1.183.140**	**416.009**	**4.636.507**

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 (“TRY”))

16. Intangible assets

	Intangible assets	Total
Cost		
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**
Balance at 1 January 2018	297.358	297.358
Additions	72.480	72.480
Disposals	(1.396)	(1.396)
Balance at 31 December 2018	**368.442**	**368.442**
Amortisation		
Balance at 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)**
Opening balance, 1 January 2018	(152.192)	(152.192)
Amortisation for the year	(57.830)	(57.830)
Disposals	27.369	27.369
Balance at 31 December 2018	**(182.653)**	**(182.653)**
Carrying amounts		
At 1 January 2017	**103.006**	**103.006**
At 31 December 2017	**145.166**	**145.166**
At 31 December 2018	**185.789**	**185.789**

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.

The non-current assets held for sale of the Group as of 31 December 2018 is TRY 9.336 (31 December 2017: TRY 533).

18. Investment properties

	1 January – 31 December 2018	1 January – 31 December 2017
Balance at 1 January	910.378	864.116
Acquisitions	74.894	55.273
Transfer	-	61.600
Disposals	(6.036)	(669)
Depreciation	(5.835)	(69.942)
Balance at 31 December	**973.401**	**910.378**

The Group’s investment property appraisal reports are prepared by independent professional valuation specialists authorized by the Capital Markets Board of Turkey and renews the revaluations every year. TRY 26.177 of rent income is generated from investment properties in the current year (31 December 2017: TRY 22.458). The fair values of investment properties are determined by market comparable value method and are reclassified as Level 2.

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

19. Other assets

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

	31 December 2018	31 December 2017
Prepaid expenses	1.245.339	1.113.978
Receivables from credit card payments	239.964	304.354
Cash guarantees given	438.017	88.934
Clearing house account	1.103.059	99.333
Advances given for lease transactions	100.747	129.271
Receivables from asset sale on credit terms	42.466	56.914
Guarantees given for derivative financial instruments	303.684	104.783
Receivables from financial sector activities	940.027	100.810
Other assets	868.018	994.603
Total other assets	**5.281.321**	**2.992.980**

20. Deposits

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

	31 December 2018	31 December 2017
Demand deposits	20.673.730	3.813.689
Time deposits	10.344.664	15.401.009
Deposits from banks	**31.018.394**	**19.214.698**

As at 31 December 2018, deposits from banks include TRY accounts amounting to TRY 15.975.810 (31 December 2017: TRY 7.229.440) and foreign currency accounts amounting to TRY 15.042.584 (31 December 2017: TRY 11.985.258) in total.

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

	31 December 2018		31 December 2017	
	Demand	Time	Demand	Time
Saving deposits	6.742.223	54.737.809	6.767.610	43.569.737
Foreign currency deposits	17.029.676	80.998.709	10.843.568	53.910.468
Commercial deposits	4.990.202	31.821.556	5.235.492	30.100.209
Public institutions and other deposits	3.656.282	19.554.484	2.671.077	20.939.920
Deposits from customers	**32.418.383**	**187.112.558**	**25.517.747**	**148.520.334**

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

21. 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 2018	31 December 2017
Obligations under repurchase agreements	7.571.439	4.348.200
Total	**7.571.439**	**4.348.200**

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 2018, the maturities of the obligations varied from one day to 1 year (31 December 2017: one day to 1 year).

22. Loans and advances from banks

At 31 December 2018 and 31 December 2017, loans and advances from banks comprised the following:

	31 December 2018	31 December 2017
Borrowings	15.274.480	20.058.484
Funds	2.874.121	2.724.634
Total	**18.148.601**	**22.783.118**

At 31 December 2018 and 31 December 2017, borrowings comprised the following:

	31 December 2018		31 December 2017	
	Short term	Long term	Short term	Long term
Loans and advances from domestic banks and institutions	1.287.019	2.873.726	1.262.731	2.898.764
Loans and advances from foreign banks and institutions	2.666.516	11.321.340	5.789.308	12.832.315
Borrowings	**3.953.535**	**14.195.066**	**7.052.039**	**15.731.079**

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as of 31 December 2018 (31 December 2017: 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 ("TRY"))

22. Loan and advances from banks (continued)

As at 31 December 2018 and 31 December 2017, interest rates and maturities of bank borrowings are as follows:

Fixed rates			
31 December 2018	**Amount**	**Interest rate**	**Maturity**
USD borrowings	5.253.406	1,25% - 6,40%	January 2019 - March 2043
EUR borrowings	8.714.381	0% - 3,50%	January 2019 - September 2038
TRY borrowings	1.286.624	6,84% - 13,82%	January 2019 - December 2019
Other borrowings	20.069	0% - 1,78%	January 2019 - May 2019
Total	**15.274.480**		

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
TRY 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**		

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

23. Interbank money market borrowings

	31 December 2018	31 December 2017
Payables to stock exchange money market	30.628.065	30.307.004
On behalf of customers	18.765	348.118
Total	**30.646.830**	**30.655.122**

Payables to stock exchange money markets have a maturity of 31 days (31 December 2017: 31 days) 23,33% (31 December 2017: 14,50%) of interest rates.

24. 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 22% 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 2018 (31 December 2017: 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 22% 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.

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 2018 is 22% (31 December 2017: 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.

24. 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 ("TRY"))

24. 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 2018 and 31 December 2017 are as follows:

	31 December 2018	**31 December 2017**
TRNC	10%	10%
Bahrain	-	-
Serbia	15%	15%
Republic of Macedonia	10%	10%

As of 31 December 2018 and 31 December 2017 advance income taxes are netted off with the current income tax liability as stated below:

	31 December 2018	**31 December 2017**
Income tax liability	219.426	799.366
Income tax paid in advance	(172.670)	(603.728)
Income tax payables	**46.756**	**195.638**

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 2017: 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 ("TRY"))

24. Taxation (continued)

***Deferred taxes** (continued)*

As of 31 December 2018, net deferred tax represents TRY 351.831 net deferred tax liability, consisting of deferred tax assets and deferred liabilities amounting to TRY 103.929 and TRY 455.760, respectively. (31 December 2017: TRY 465.405 and TRY 574.170, respectively). Deferred tax assets and liabilities are attributable to the following:

Deferred tax asset / (liability)	**31 December 2018**	**31 December 2017**
Valuation differences on financial assets and liabilities	(1.632.153)	(600.353)
Provisions	839.231	301.129
Portfolio and specific provision for impairment on loans and advances	5.503	378.224
Other	435.588	(187.765)
Deferred tax liability, net	**(351.831)**	**(108.765)**

Movement of net deferred tax can be presented as follows:

	1 January – 31 December 2018	**1 January – 31 December 2017**
Deferred tax, net at 1 January	(108.765)	151.566
IFRS 9 & IFRS 15 transition effect	(159.722)	-
Deferred income tax recognised in other comprehensive income	105.597	50.209
Deferred tax recognised in the profit or loss	(188.941)	(310.540)
Deferred tax, net	**(351.831)**	**(108.765)**

An analysis of the Group's income tax expense for the year ended 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	**31 December 2017**
Current tax charge		
Current period	(179.474)	1.376.068
Deferred tax charge / (benefit)		
Origination and reversal of temporary differences	(188.941)	(310.540)
Total income tax charge	**(368.415)**	**1.065.528**

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

24. **Taxation** (continued)

Reconciliation of effective tax rate

The reported taxation charge for the year ended 31 December 2018 and 31 December 2017 are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	31 December 2018		31 December 2017	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**3.056.136**		**5.250.950**	
Income tax using the Bank's domestic tax rate	672.350	22%	1.050.190	20%
Tax exempt income	(15.865)		(9.703)	
Exception for foreign branches	(329.208)		-	
Non-deductible expenses	41.138		25.041	
Income tax charge	**368.415**		**1.065.528**	

25. Other liabilities and provisions

	31 December 2018	31 December 2017
Other liabilities		
Cooperative deposit blockages	2.236.227	1.718.727
Credit card members restricted account	1.933.729	1.568.922
Unearned revenue	1.195.043	1.163.889
Cheques clearance account	2.508.964	234.204
Taxes and dues payable	693.385	502.121
Banking transactions	271.877	182.019
Payment orders	122.241	109.280
Import transfer orders	2.215	17.600
Other liabilities	631.898	739.370
Total	**9.595.579**	**6.236.132**
Provisions		
Employee termination benefits	550.381	497.405
General Reserve	451.000	17.000
Unused vacation accruals	108.271	162.485
Provision on non-cash loans	195.172	131.448
Provision on lawsuits	129.210	110.968
Provisions for credit card bonuses	18.149	18.149
Other	509.752	415.076
Total	**1.961.935**	**1.352.531**

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

25. 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 TRY 5.434,42 and full TRY 4.732,48 at 31 December 2018 and 31 December 2017 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 TRY 6.017,60 effective 1 January 2019.

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

	31 December 2018	31 December 2017
Discount rate for pension plan liabilities	12,00%	8,90%
Expected rates of salary increase	16,30%	12,30%
Inflation	12,20%	9,10%

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

	1 January – 31 December 2018	1 January – 31 December 2017
Defined benefit obligation at 1 January	497.405	421.497
Current service cost	52.222	50.039
Interest cost	57.289	44.640
Actuarial losses/(gains)	(24.320)	14.073
Previous year service cost charged for the period	760	52
Payment/ limitation of benefits/ loss (gain) because of discharge	3.288	8.229
Benefits paid	(36.263)	(41.125)
Defined benefit obligation at 31 December	**550.381**	**497.405**

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

	31 December 2018	31 December 2017
Current service cost	52.222	50.039
Interest cost	57.289	44.640
Previous Charge for the last financial period	760	52
Payment/ limitation of benefits/ loss (gain) because of discharge	3.288	8.229
	113.559	**102.960**

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

25. Other liabilities and provisions (continued)

Post-employment benefits (pension)

Based on the results of the actuarial reports prepared as of 31 December 2018, 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 2018, 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 2018**	**31 December 2017**
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 2018, the number of personnel who benefit from the Fund is TRY 36.012 (31 December 2017: TRY 34.631).

Below table shows the present values of premiums and salary payments as of 31 December 2018, by taking into account the health expenses within the Social Security Foundation limits.

Transferable pension and medical benefits:	**31 December 2018**	**31 December 2017**
Net present value of total liabilities other than health	(2.561.914)	(1.938.100)
Net present value of long term insurance line premiums	2.944.078	2.167.717
Net present value of total liabilities other than health	**382.164**	**229.617**
Net present value of health liabilities	(538.003)	(435.970)
Net present value of health premiums	1.839.474	1.354.206
Net present value of health liabilities	**1.301.471**	**918.236**
Pension fund assets	**2.469.532**	**1.911.745**
General administration expenses (1%)	(30.999)	(23.741)
Amount of actuarial and technical (deficit) / surplus	**4.122.168**	**3.035.857**

Plan assets are comprised as follows:

Total assets	**31 December 2018**	**31 December 2017**
Banks	1.386.529	1.104.186
Marketable securities	908.197	644.310
Property and equipment	112.560	126.403
Other	62.246	36.846
Total	**2.469.532**	**1.911.745**

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 ("TRY"))

25. 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)	(%18,0)	(%18,2)	(%18,2)
Discount rate -1%	<%0,1	%24,2	%24,6	%24,6
Inflation rate +1%	<%0,1	%24,5	%30,8	%30,7
Inflation rate -1%	<(%0,1)	(%18,3)	(%21,7)	(%21,6)

Based on the results of the actuarial report prepared as of 31 December 2018, 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.

26. 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 2018			31 December 2017		
	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	152.578	76.749	16.280.764	114.410	58.002	6.356.798
Other swap contracts	704.806	225.413	17.392.884	203.836	3.403	10.886.762
Other	204.697	108.177	17.183.495	44.685	89.268	14.606.591
Total	**1.062.081**	**410.339**	**50.857.143**	**362.931**	**150.673**	**31.850.151**

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

27. Debt securities issued and subordinated liabilities

	31 December 2018	31 December 2017
Debt securities issued at amortized cost	16.334.300	12.008.923
Total of debt securities issued	**16.334.300**	**12.008.923**

Debt securities issued comprise of the following:

	31 December 2018		
Debt securities issued	**Maturity**	**Interest rate %**	**Amount**
Debt securities of TRY	January 2019 - March 2019	4,23% - 27,00%	4.309.461
Debt securities of USD	June 2019 - July 2021	3,91% - 5,06%	12.024.839
			16.334.300

	31 December 2017		
Debt securities issued	**Maturity**	**Interest rate %**	**Amount**
Debt securities of TRY	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

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

27. Debt securities issued and subordinated liabilities (continued)

	31 December 2018	31 December 2017
Subordinated liabilities at amortized cost	6.182.084	1.004.385
Total of subordinated liabilities	**6.182.084**	**1.004.385**

Issuance of subordinated liabilities was completed on 20 October 2017 amounting to TRY 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.

Issuance of subordinated liabilities was completed on 3 July 2018 amounting to TRY 1,950 million and due 20 June 2028 with a coupon rate of 14,10%

Issuance of subordinated liabilities was completed on 26 September 2018 amounting to TRY 2,980 million and due 13 September 2028 with a rate of 12,79%.

28. 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.

	31 December 2018	31 December 2017
Collaterals of borrowed securities	14.374.380	10.000.429
Total of collaterals of borrowed securities	**14.374.380**	**10.000.429**

	31 December 2018	31 December 2017
Borrowed securities	14.374.380	10.000.429
Total of borrowed securities	**14.374.380**	**10.000.429**

29. Share capital

As at 31 December 2018, the authorized nominal share capital of the Bank amounts to TRY 1.250.000 (31 December 2017: TRY 1.250.000). The Bank's paid-in capital is divided into 1.250.000.000 shares, each with a nominal value of full TRY 1.

	31 December 2018	31 December 2017
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 ("TRY"))

30. Reserves and dividends paid and proposed

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of debt and other instruments at amortised cost investments, excluding impairment losses, until the investment is derecognised.

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 Bank'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 2018 is TRY 2.018.739 (31 December 2017: TRY 1.758.941).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The translation reserve as at 31 December 2018 is TRY 54.085 (31 December 2017: TRY (4.311)).

As of 1 April 2015, the Group adopted the revaluation method for buildings in tangible assets in accordance with International Accounting Standard No: 16 "Property, Plant and Equipment" (IAS 16). Expertise values determined by independent appraisal 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 accounted within the current period is TRY 205.949 (31 December 2017: TRY 146.368).

Dividends paid and proposed

As of the reporting date, the Group has paid dividend amounting to TRY 188.795 out of 2017 profit (31 December 2017: TRY 256.584).

31. Earnings per share

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

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

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

	31 December 2018	31 December 2017
Net profit attributable to ordinary shareholders for basic earnings per share	2.673.406	4.172.937
Weighted average number of ordinary shares for basic earnings per share	1.250.000.000	1.250.000.000
Basic earnings per share (full TRY per share)	**2,1387**	**3,3383**

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 (“TRY”))

32. 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 Turkish Prime Ministry Privatization Administration (incorporated in Turkey). 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 2018 and 31 December 2017, 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:

	31 December 2018	**31 December 2017**
Salaries and short-term benefits	31.076	25.695

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.

Other related party transactions

Current period	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission Income**
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	724	21.582	-	3.823	6
Kredi Kayıt Bürosu A.Ş.	-	-	10.267	-	3.078	-
Bankalararası Kart Merkezi A.Ş.	-	-	14.485	-	2.092	-
Total	**-**	**724**	**334 46.**	**-**	**8.993**	**6**

Prior period	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission Income**
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	1.075	19.480	5	2.474	-
Kredi Kayıt Bürosu A.Ş.	-	-	20.001	-	149	-
Bankalararası Kart Merkezi A.Ş.	-	-	-	-	323	-
Total	**-**	**1.075**	**39.481**	**5**	**2.946**	**-**

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

33. Other operating income

	1 January – 31 December 2018	**1 January – 31 December 2017**
Reversal from prior years' provision	227.242	136.410
Gain on sale of property and equipment	122.896	112.134
Rent income	63.122	49.417
Other	167.904	83.734
Total	**581.164**	**381.695**

34. Other operating expenses

	1 January – 31 December 2018	**1 January – 31 December 2017**
Staff costs:		
Personnel expenses	*2.633.602*	*2.174.853*
Retirement pay provision	*77.464*	*98.844*
Administrative expenses	939.464	1.138.555
Depreciation and amortization charges	201.766	178.943
Saving deposit insurance fund contributions	106.782	193.700
Taxes, duties, charges and premium expenses	257.548	189.618
Provision expenses for lawsuits	3.495	3.027
Other	1.628.881	734.941
Total	**5.849.002**	**4.712.481**

35. Fees and commission income and expenses

	1 January – 31 December 2018	**1 January – 31 December 2017**
Fees and commission income		
Banking	2.766.711	2.459.088
Brokerage	64.339	47.712
Total	**2.831.050**	**2.506.800**
Fees and commission expenses		
Banking	(920.406)	(583.428)
Brokerage	(6.281)	(2.238)
Total	**(926.687)**	**(585.666)**

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

36. Additional cash flow information

	31 December 2018	31 December 2017
Cash on hand	4.591.888	2.208.138
Due from banks (with original maturity of less than 3 months)	5.100.805	6.291.230
Money market placements	65.318	1.285.499
Blocked balances with banks (1)	(387.758)	(314.564)
Unrestricted balances with Central Bank	14.078.315	17.652.682
Other liquid assets	20	7
Cash and cash equivalents in the statement of cash flows	**23.448.588**	**27.122.992**

(1) Blocked accounts for technical reserves of Halk Hayat ve Emeklilik AŞ amounting to TRY 188.281 (31 December 2017: TRY 182.179) and of Halk Sigorta AŞ amounting to TRY 199.477 (31 December 2017: TRY 132.385, 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.

37. 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 2018	31 December 2017
Letters of guarantee issued	71.397.815	49.660.108
Letters of credit	3.230.210	4.148.121
Acceptance credits	7.050.260	3.693.507
Other	1.991.690	1.285.922
Total non-cash loans	**83.669.975**	**58.787.658**
Credit card limit commitments	12.728.944	11.599.896
Other commitments	11.431.813	11.678.758
Total	**107.830.732**	**82.066.312**

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 34 mutual funds.

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

658 branch premises of the Bank are lease holder under operational leases. In general, 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.

38. Other matters

One of the Parent Bank’s former directors has been convicted and imprisoned for some of the charges by the court in the United States of America (“USA”) of the violation of the USA sanctions involving Iran as of 16 May 2018. The subsequent legal process is not yet completed but ongoing for the defendant former director of the Parent Bank such as appeal and other legal rights following the first phase of the trial.

The Parent 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 Parent Bank.

The Parent 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 Parent 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 Parent Bank will continue to continue to adopt the same policies of transparency and compliance with international regulations.

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

39. Subsequent events

The Bank's shares in the capital of Halk Portföy Yönetimi A.Ş., as classified under Assets Held For Sale, has been transferred to Ziraat Portföy Yönetimi A.Ş. as of January 2, 2019.

In January 2019, the Group’s subsidiary Halk Banka A.D., Skopje acquired an insurance company named Nova Osiguruvanje established in Macedonia.

The Parent Bank, as approved by the BRSA on 19 April 2019, and under Article 7 of the BRSA Regulation on Bank Equities, has exercised its authority to sign a subordinated loan agreement with the Turkey Wealth Fund Corporation's Market Stability and Equalization Fund to borrow Euro 900 million to be accounted for as part of the Additional Tier 1 capital and duly executed the relevant transaction on 24 April 2019, in exchange acquired government securities under "debt and other instruments at amortised cost". The agreement shall operate on a rolling, fixed-rate basis with the earliest prepayment option and the first interest payment set for the end of year 5.