Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

Consolidated Financial Statements

For the six month period ended

30 June 2018

With Independent Auditors' Report on
Review of Consolidated Interim
Financial Information

Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

Table of contents

Independent Auditors' Report
Consolidated Statement of Financial Position
Consolidated Statement of Profit or Loss and Other Comprehensive Income
Consolidated Statement of Changes in Equity
Consolidated Statement of Cash Flows
Notes to Consolidated Financial Statements

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Independent Auditors' Report on Review of Consolidated Interim Financial Statements

To the Board of Directors of Türkiye Garanti Bankası Anonim Şirketi,

Introduction

We have reviewed the accompanying consolidated statement of financial position of Türkiye Garanti Bankası Anonim Şirketi ("the Bank") and its subsidiaries (together "the Group") as at 30 June 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes comprising significant accounting policies and other explanatory information ("the consolidated interim financial statements"). The Bank management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS") including the requirements of IAS 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.,
a Turkish corporation and a member firm of the KPMG network of independent
member firms affiliated with KPMG International Cooperative, a Swiss entity

Basis for Qualified Conclusion

The accompanying consolidated interim financial statements as at 30 June 2018 include a general reserve of total TL 1,160,000 thousands, which had been fully recognized as expense in prior periods, which is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of Türkiye Garanti Bankası AŞ and its subsidiaries as at 30 June 2018, and its consolidated financial performance and its consolidated cash flows for the six month period then ended, in accordance with International Financial Reporting Standards ("IFRS") including the requirements of IAS 34 "Interim Financial Reporting".

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

Alper Güvenç
Partner

8 August 2018
İstanbul, Turkey

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Financial Position
At 30 June 2018

(Currency: Thousands of Turkish Lira (TL))

	Notes	30 June 2018	31 December 2017
Assets			
Cash and balances with central banks	*4*	9,193,402	15,316,618
Financial assets at fair value through profit or loss	*5*	569,986	1,364,460
Derivative financial assets	*6*	5,669,662	2,617,855
Loans and advances to banks	*7*	20,038,249	14,738,053
Loans and advances to customers	*8,29*	259,265,122	233,194,205
Investment securities	*9,27,28*	47,215,951	50,432,767
Equity investments	*10*	260,259	198,696
Assets held for sale	*11*	859,129	835,552
Investment properties	*12*	322,999	328,403
Tangible and intangible assets	*13*	6,412,735	6,189,894
Goodwill, net	*14*	32,948	32,948
Deferred tax asset	*24*	1,484,008	1,370,747
Other assets	*15*	32,577,015	25,501,998
Total Assets		**383,901,465**	**352,122,196**
Liabilities			
Deposits from banks	*16*	6,831,760	1,625,822
Deposits from customers	*17*	222,830,427	199,053,596
Loans and advances from banks and other institutions	*18*	39,568,929	39,021,298
Obligations under repurchase agreements and money market fundings	*19*	7,180,657	18,637,856
Debt securities issued	*20*	27,328,715	20,849,248
Financial liabilities at fair value through profit or loss	*21*	9,912,102	9,371,202
Derivative financial liabilities	*22*	5,402,689	3,111,579
Subordinated liabilities	*23*	3,444,072	2,849,471
Current tax liability	*24*	574,826	763,632
Deferred tax liability	*24*	35,834	39,828
Provisions	*25*	3,724,952	3,228,364
Other liabilities and accrued expenses	*26*	12,661,516	11,645,098
Total Liabilities		**339,496,479**	**310,196,994**
Equity attributable to owners of the bank			
Share capital	*27*	5,146,371	5,146,371
Share premium	*27*	11,880	11,880
Legal reserves	*27*	1,573,192	1,396,218
Other reserves	*9,27*	2,568,606	2,226,088
Retained earnings	*27*	34,937,540	32,822,485
		44,237,589	**41,603,042**
Non-controlling interests	*27*	**167,397**	**322,160**
Total Equity		**44,404,986**	**41,925,202**
Total Liabilities and Equity		**383,901,465**	**352,122,196**
Commitments and Contingencies	*29*		

The notes on pages 5 to 109 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For The Six-Month Period Ended 30 June 2018

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2018- 30 June 2018	1 April 2018- 30 June 2018	1 January 2017- 30 June 2017	1 April 2017- 30 June 2017
Statement of Profit or Loss:					
Interest income:					
Interest on loans		13,515,244	7,121,498	10,338,117	5,352,789
Interest on securities		2,188,841	1,123,167	1,942,983	1,024,439
Interest on deposits at banks		259,100	146,103	210,307	143,454
Interest on lease business		245,495	130,379	217,443	106,312
Interest on factoring business		201,743	103,211	129,250	66,552
Interest on reserve deposits		157,681	85,776	102,861	48,226
Others		58,474	33,064	56,102	26,376
		16,626,578	8,743,198	12,997,063	6,768,148
Interest expense:					
Interest on saving, commercial and public deposits		(5,268,538)	(2,761,134)	(3,690,902)	(1,934,936)
Interest on borrowings, obligations under repurchase agreements,money market and swap fundings		(2,832,953)	(1,522,890)	(2,236,968)	(1,299,283)
Interest on debt securities issued		(981,499)	(508,205)	(655,086)	(336,571)
Interest on subordinated liabilities		(114,985)	(68,952)	(16,823)	(16,823)
Interest on bank deposits		(61,023)	(37,399)	(83,785)	(41,413)
Others		(17,892)	(4,458)	(13,949)	(3,301)
		(9,276,890)	(4,903,038)	(6,697,513)	(3,632,327)
Net interest income before provisions for loans and other credit risks		**7,349,688**	**3,840,160**	**6,299,550**	**3,135,821**
Provisions for loans and other credit risks, net	*4,5,7,8,9,25*	**(1,478,164)**	**(674,973)**	**(399,954)**	**(102,650)**
Net interest income after provisions for loans and other credit risks		**5,871,524**	**3,165,187**	**5,899,596**	**3,033,171**
Fees and commissions income		3,128,476	1,570,341	2,375,022	1,194,028
Fees and commissions expense		(717,734)	(388,047)	(568,780)	(291,568)
Net fees and commissions income	*33*	**2,410,742**	**1,182,294**	**1,806,242**	**902,460**
Net trading income/(expense)	*34*	**1,978,449**	**909,796**	**(439,969)**	**(327,488)**
Foreign exchange gains/(losses), net		**(1,801,697)**	**(1,001,981)**	**417,727**	**299,474**
Insurance business income		395,752	195,865	325,604	164,394
Insurance business expense		(129,879)	(66,071)	(86,713)	(43,537)
Net insurance business income		**265,873**	**129,794**	**238,891**	**120,857**
Gain on sale of assets		166,985	24,073	83,630	40,788
Other operating income	*35*	195,971	104,087	135,921	71,350
Other operating income		**362,956**	**128,160**	**219,551**	**112,138**
Total operating Income		**9,087,847**	**4,513,250**	**8,142,038**	**4,140,612**
Salaries and wages		(1,218,668)	(631,546)	(1,113,195)	(586,733)
Employee benefits	*25*	(605,440)	(333,630)	(541,191)	(243,678)
Credit card rewards and promotion expenses		(558,127)	(293,323)	(449,014)	(223,225)
Depreciation and amortisation	*13*	(227,477)	(114,979)	(204,883)	(103,516)
Rent expenses		(223,844)	(113,724)	(208,506)	(105,125)
Taxes and duties other than on income		(185,146)	(47,990)	(158,791)	(42,445)
Communication expenses		(115,082)	(57,372)	(108,557)	(54,987)
Impairment losses, net	*11,12,14,15,26*	(11,990)	(9,195)	(456,229)	(250,473)
Other operating expenses	*36*	(861,800)	(426,439)	(781,362)	(392,035)
Total operating expenses		**(4,007,574)**	**(2,028,198)**	**(4,021,728)**	**(2,002,217)**
Profit/(loss) before tax	*0.2188*	**5,080,273**	**2,485,052**	**4,120,310**	**2,138,395**
Taxation charge	*24*	(1,118,428)	(546,989)	(901,479)	(468,532)
Net profit/(loss) for the period	*0.2202*	**3,961,845**	**1,938,063**	**3,218,831**	**1,669,863**
Other Comprehensive Income:					
(items to be recycled subsequently to profit or loss)					
Foreign currency translation, net of tax	*27*	616,490	349,179	250,037	58,492
Fair value change on debt instruments (available-for-sale financial assets), net of tax:					
Net change in fair values	*27*	-	-	470,790	78,495
Net amount recycled to profit/loss	*27*	-	-	3,979	15,024
Fair value change on debt instruments measured at fair value through other comprehensive income, net of tax:					
Net change in fair values	*27*	(619,347)	(377,021)	-	-
Net amount reclassified to profit/loss	*27*	(7,464)	3,035	-	-
Cash flow hedges, net of tax:					
Effective portion of changes in hedge reserve	*27*	152,309	71,315	(26,424)	(35,809)
Net amount reclassified to profit/loss	*27*	(6,601)	(5,378)	(14,262)	(5,194)
Net investment hedge for foreign operations, net of tax	*27*	(225,844)	(132,140)	(82,430)	(33,904)
		(90,457)	**(91,010)**	**601,690**	**77,104**
(items not to be recycled subsequently to profit or loss)					
Fair value change on equity investments (available-for-sale financial assets), net of tax:					
Net change in fair values	*27*	-	-	15,789	5,263
Net amount recycled to profit/loss	*27*	-	-	-	-
Fair value change on equity investments measured at fair value through other comprehensive income, net of tax:					
Net change in fair values	*27*	32,273	24,658	-	-
Net amount recycled to profit/loss	*27*	-	-	-	-
Change on revaluation surplus on tangible and intangible assets, net of tax		4,439	2,587	500	200
		36,712	**27,245**	**16,289**	**5,463**
Other comprehensive income for the period, net of tax		**(53,745)**	**(63,765)**	**617,979**	**82,567**
Total Comprehensive Income for the Period		**3,908,100**	**1,874,298**	**3,836,810**	**1,752,430**
Net profit/(loss) attributable to:					
Equity holders of the Bank		3,927,269	1,920,618	3,191,733	1,655,883
Non-controlling interests		34,576	17,445	27,098	13,980
		3,961,845	**1,938,063**	**3,218,831**	**1,669,863**
Total comprehensive income attributable to:					
Equity holders of the Bank		3,873,524	1,856,853	3,809,704	1,738,445
Non-controlling interests		34,576	17,445	27,106	13,985
		3,908,100	**1,874,298**	**3,836,810**	**1,752,430**
Weighted average number of shares with a face value of Kr 1 each	*27*	**420 billions**	**420 billions**	**420 billions**	**420 billions**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		**0.935**	**0.457**	**0.760**	**0.394**

The notes on pages 5 to 109 are integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Changes in Equity
For The Period Ended 30 June 2018

(Currency: Thousands of Turkish Lira (TL))

				Other Reserves – to be recycled to profit or loss			Other Reserves – not to be recycled to profit or loss					
	Share Capital	**Share Premium**	**Legal Reserves**	**Fair Value Change on Debt Instruments**	**Hedge Reserve**	**Foreign Currency Translation Reserve**	**Fair Value Change on Equity Investments**	**Actuarial Gain/(Loss)**	**Revaluation Surplus on Tangible Assets**	**Retained Earnings**	**Non-Controlling Interests**	**Total Equity**
Balances at 31 December 2016	**5,146,371**	**11,880**	**1,275,230**	**(564,852)**	**(426,418)**	**1,149,369**	**21,077**	**(104,510)**	**1,511,483**	**28,150,518**	**267,808**	**36,437,956**
Net unrealized gains on available-for-sale portfolio	-	-	-	470,782	-	-	15,789	-		-	8	486,579
Net realized losses on available-for-sale assets recycled to statement of profit or loss at disposal	-	-	-	3,979	-	-	-	-	-	-	-	3,979
Foreign currency translation	-	-	-	5,523	(45)	244,559	-	-	-	-	-	250,037
Net change on revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	-	500	-	-	500
Net losses on cash flow hedges	-	-	-	-	(40,686)	-	-	-	-	-	-	(40,686)
Net change on net investment hedge for foreign operations	-	-	-	-	(82,430)	-	-	-	-	-	-	(82,430)
Net profit/(loss) for six-month period	-	-	-	-	-	-	-	-	-	3,191,733	27,098	3,218,831
Total comprehensive income for the period	**-**	**-**	**-**	**480,284**	**(123,161)**	**244,559**	**15,789**	**-**	**500**	**3,191,733**	**27,106**	**3,836,810**
Transfer to legal reserves	-	-	110,633	-	-	-	-	-	-	(110,633)	-	-
Foreign currency translation for legal reserves	-	-	2,358	-	-	-	-	-	-	-	-	2,358
Dividends paid	-	-	-	-	-	-	-	-	-	(1,250,000)	(1,500)	(1,251,500)
Balances at 30 June 2017	**5,146,371**	**11,880**	**1,388,221**	**(84,568)**	**(549,579)**	**1,393,928**	**36,866**	**(104,510)**	**1,511,983**	**29,981,618**	**293,414**	**39,025,624**
Balances at 31 December 2017	**5,146,371**	**11,880**	**1,396,218**	**(378,822)**	**(644,771)**	**1,817,138**	**60,858**	**(144,368)**	**1,516,053**	**32,822,485**	**322,160**	**41,925,202**
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	396,257	-	-	-	-	-	107,356	(7,809)	495,804
Restated balances at 1 January 2018	**5,146,371**	**11,880**	**1,396,218**	**17,435**	**(644,771)**	**1,817,138**	**60,858**	**(144,368)**	**1,516,053**	**32,929,841**	**314,351**	**42,421,006**
Net unrealized losses from debt instruments measured at fair value through other comprehensive income	-	-	-	(619,341)	-	-	-	-		-	(6)	(619,347)
Net unrealized gains from equity investments measured at fair value through other comprehensive income	-	-	-	-	-	-	32,273	-	-	-	-	32,273
Net realized losses on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal	-	-	-	(7,464)	-	-	-	-	-	-	-	(7,464)
Foreign currency translation	-	-	-	(48,984)	171	665,303	-	-	-	-	-	616,490
Net change on revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	-	4,439	-	-	4,439
Net gains on cash flow hedges	-	-	-	-	145,708	-	-	-	-	-	-	145,708
Net change on net investment hedge for foreign operations	-	-	-	-	(225,844)	-	-	-	-	-	-	(225,844)
Net profit/(loss) for six-month period	-	-	-	-	-	-	-	-	-	3,927,269	34,576	3,961,845
Total comprehensive income for the period	**-**	**-**	**-**	**(675,789)**	**(79,965)**	**665,303**	**32,273**	**-**	**4,439**	**3,927,269**	**34,570**	**3,908,100**
Newly consolidated subsidiaries	-	-	136	-	-	-	-	-		3,031	-	3,167
Transfer to legal reserves	-	-	172,601	-	-	-	-	-	-	(172,601)	-	-
Foreign currency translation for legal reserves	-	-	4,237	-	-	-	-	-	-	-	-	4,237
Dividends distributed	-	-	-	-	-	-	-	-	-	(1,750,000)	(181,524)	(1,931,524)
Balances at 30 June 2018	**5,146,371**	**11,880**	**1,573,192**	**(658,354)**	**(724,736)**	**2,482,441**	**93,131**	**(144,368)**	**1,520,492**	**34,937,540**	**167,397**	**44,404,986**

The notes on pages 5 to 109 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Cash Flows
For The Six-Month Period Ended 30 June 2018

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2018- 30 June 2018	1 January 2017- 30 June 2017
Cash flows from operating activities:-			
Interests and commissions received		16,156,649	13,713,342
Interests and commissions paid		(9,484,106)	(7,211,049)
Other operating activities, net		(460,054)	1,640,347
Cash payments to employees and suppliers		(3,240,284)	(3,134,215)
		2,972,205	5,008,425
(Increase)/decrease in operating assets:-			
Loans and advances to banks		4,589,296	(451,277)
Balances with central banks		(5,829,439)	(9,262,357)
Financial assets at fair value through profit or loss		1,023,213	194,975
Loans and advances to customers		(27,472,734)	(17,462,801)
Other assets		(1,298,112)	474,043
Increase/(decrease) in operating liabilities:-			
Deposits from banks		5,199,839	1,273,383
Deposits from customers		23,431,694	12,793,605
Obligations under repurchase agreements and money market fundings		(11,452,691)	4,441,406
Other liabilities		(47,586)	404,933
Net cash outflows from operating activities before taxes and duties paid		**(8,884,315)**	**(2,585,665)**
Income taxes and other duties paid		**(1,444,642)**	**(872,695)**
Net cash outflows from operating activities		**(10,328,957)**	**(3,458,360)**
Cash flows from investing activities:-			
Net decrease in investment securities		4,430,085	1,365,203
Interest received for investment securities		2,195,355	798,877
Increase in equity investments		-	(29)
Dividends received		5,188	7,338
Proceeds from sale of tangible and intangible assets	*12,13*	304,885	317,125
Purchase of tangible and intangible assets	*12,13*	(567,284)	(626,894)
Net cash inflows from investing activities		**6,368,229**	**1,861,620**
Cash flows from financing activities:-			
Increase/(decrease) in loans and advances from banks and other institutions, net		6,367,089	(3,423,930)
Cash obtained from debt securities issued		13,743,461	12,399,864
Cash used for repayment of debt securities issued		(11,427,137)	(7,506,333)
Dividends paid		(1,750,000)	(1,251,500)
Net cash inflows from financing activities		**6,933,413**	**218,101**
Effect of exchange rate changes		**809,584**	**(172,069)**
Net increase/(decrease) in cash and cash equivalents		**3,782,269**	**(1,550,708)**
Cash and cash equivalents at the beginning of the period		14,980,904	15,698,078
Cash and cash equivalents at the end of the period	*2*	**18,763,173**	**14,147,370**

The notes on pages 5 to 109 are an integral part of these consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the six-month period ended 30 June 2018 comprise the Bank and its subsidiaries (the Subsidiaries) (collectively referred as "the Group").

(a) Brief History

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and its "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 886 domestic branches, eight foreign branches, three representative offices abroad and 36 offices. The banking activities of the Bank's Luxembourg branch were ceased during the year 2017. In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Bucharest. The Bank and its subsidiaries in total have 22,272 employees. The Bank's head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

(b) Ownership

As of 30 June 2018, group of companies under Banco Bilbao Vizcaya Argentaria SA ("BBVA") that currently owns 49.85% shares of the Bank, is named the BBVA Group (the Group) and it is the main shareholder.

On 22 March 2011, BBVA had acquired; 78.120.000.000 shares of the Bank owned by GE Capital Corporation at a total nominal value of TL 781,200 thousands representing 18.60% ownership, and 26.418.840.000 shares of the Bank owned by Doğuş Holding AŞ at a total nominal value of TL 264,188 thousands representing 6.29% ownership. BBVA, purchasing 24.89% shares of the Bank, had joint control on the Bank's management together with group of companies under Doğuş Holding AŞ (the Doğuş Group).

Subsequently, on 7 April 2011, BBVA had acquired 503.160.000 shares at a nominal value of TL 5,032 thousands and increased its ownership in the Bank's share capital to 25.01%. Accordingly, BBVA and the Doğuş Group had mutual control on the Bank's management.

In accordance with the terms of the agreement between BBVA and the Doğuş Group which was previously disclosed on 19 November 2014, the sale of shares representing 14.89% of the share capital of the Bank with a face value of TL 625,380 thousands and 62.538.000.000 shares by the Doğuş Group to BBVA, has been completed on 27 July 2015. Following the acquisition, BBVA's stake in the Bank has reached to 39.90% and BBVA became the main shareholder. The Bank has moved to "Foreign Deposit Banks" category from "Private Deposit Bank" category by the Banking Regulation and Supervision Agency (the "BRSA").

On 21 February 2017, BBVA had agreed with the Doğuş Group to acquire 41.790.000.000 shares at a nominal value of TL 417,900 thousands representing 9.95% ownership and on 22 March 2017 in accordance with the terms of the agreement share transfer had been finalized. After the share transfer BBVA's interest in the share capital of the Bank is at 49.85%.

Accordingly, as of balance sheet date, the Doğuş Group's interest in the share capital of the Bank is at 0.05%.

Significant accounting policies

(a) *Statement of compliance*

The Bank and its Turkish subsidiaries maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the BRSA; Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign subsidiaries maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS") including the requirements of IAS 34 Interim Financial Reporting. The accompanying consolidated financial statements are authorized for issue by the directors on 26 July 2018.

(b) *Basis of preparation*

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

The accompanying consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value: financial instruments at FVPL, financial assets measured at fair value through other comprehensive income, real estates and investment properties.

The accounting policies set out below have been applied consistently by the Bank and its subsidiaries to prior periods presented in these consolidated financial statements except for the impact of transition to IFRS 9 and IFRS 15 as of 1 January 2018 as explained below.

(c) *New and amended standards and interpretations*

In the accompanying consolidated financial statements, the Group has adopted IFRS 9, effective for annual periods beginning on or after 1 January 2018, for the first time. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective. IFRS 15 and other new IFRS/IAS amendments in effect do not have significant impact on the accounting policies, financial position and performance of the Bank and its subsidiaries.

Besides, the adoption process continues regarding IFRS 16 Leases ("IFRS 16") which will be in effect starting from 1 January 2019.

- The new and amended standards which are effective for annual periods beginning on or after 1 January 2018

IFRS 9 Financial Instruments

As of 1 January 2018, the Bank and its subsidiaries have started to apply IFRS 9 standard which replaces IAS 39 Financial Instruments: Recognition and Measurement, for the first time in the accompanying consolidated financial statements.

Significant accounting policies (continued)

The Bank and its subsidiaries have not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in equity as of 1 January 2018. The transition impact on the accompanying consolidated financial statements regarding the first time adoption of IFRS 9 as of 1 January 2018 is presented in transition disclosures.

Changes regarding classification and measurement of financial instruments

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on both the Group's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets at fair value through profit or loss, available for sale, held-to-maturity have been replaced by:

- Financial assets at fair value through profit or loss (FVPL),
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition,
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, and
- Debt instruments at amortised cost

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss (with the condition of not impacting accounting mismatch significantly).

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

The Group's classification of its financial assets and liabilities is explained in transition disclosures. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in transition disclosures.

Impairment

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.

Details of the Group's impairment method are disclosed in Note 31. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in transition disclosures.

Hedge Accounting

IFRS 9 also includes new hedge accounting rules aiming alignment with risk management activities. IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting provisions of IAS 39 as a policy choice. Accordingly, the Bank and its subsidiaries continue to apply hedge accounting in accordance with IAS 39 in this context.

Significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from contracts with customers standard 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 does not have significant impact on the accompanying consolidated financial statements.

- The new and amended standards not effective as of 1 January 2018 and not early adopted

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognising finance leases in the balance sheet whereas not recognising 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 and the adoption process regarding the mentioned amendments continues as of the reporting date.

IFRIC 23 –Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

IFRS 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

Annual Improvements to IFRSs 2015-2017 Cycle

The amendments are effective as of 1 January 2019 and summarized below:

IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*

Significant accounting policies (continued)

IAS 12 *Income Taxes*

IAS 23 *Borrowing Costs*

Amendments to IAS 28- *Long-term interests in Associates and Joint Ventures*

Amendments to IFRS 9 - *Prepayment features with negative compensation*

The accounting policies and the valuation principles applied in the preparation of the accompanying current period consolidated financial statements are explained in the following sections. The accounting policies related with IAS 39 and IAS 18 annulled in the current period but valid for the prior period's financial statements are presented in following sections of the corresponding current accounting policies below.

(c) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in Notes 6, 8, 9, 13, 14, 15, 18 , 22, 24, 25, 28, 29, 30 and 37.

(d) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, the Bank and its subsidiaries on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

Subsidiaries

Subsidiaries are the entities controlled by the Bank. The control exists if and only if;

- when the Bank has the power over an subsidiary 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.
- exposure, or rights, to variable returns from its involvement with the subsidiary.
- the ability to use its power over the subsidiary to affect the amount of its returns.

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

Associates

Associates are those entities in which the Bank and its subsidiaries have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its subsidiaries' share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its subsidiaries' share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent

that the Bank and its subsidiaries have incurred obligations in respect of the associate.

Structured entities

Structured entities are entities that are created to accomplish a narrow and well defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated when the substance of the relationship between the Bank and the structured entity indicates that the structured entity is controlled by the Bank.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the accompanying consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

Foreign currency transactions

Transactions in the financial statements of the Bank are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognised in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in income as realized during the period.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial position. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognised directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is recycled to profit or loss.

(f) Tangible and intangible assets and related depreciation

Owned assets

The costs of the tangible and intangible assets acquired before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. Such assets acquired after this date are recorded at their historical costs. Accordingly, they are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy (s)). As of 1 November 2015, changing the existing accounting policy, it has been decided to apply revaluation model for properties recorded under tangible and intangible assets instead of cost model in accordance with IAS 16. Accordingly, for all real estates registered in the ledger, a valuation study was performed by independent expertise firms.

Significant accounting policies (continued)

Leased assets

Leases in terms of which the Bank and its subsidiaries assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to accounting policy (s)). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to income.

Internally generated software

As per IAS 38, internally-generated software should be recognised as assets if they meet the below listed criterias:

- the technical feasibility of completing the asset so that it will be available for use,
- availability of the intention to complete and use the asset,
- the ability to use the asset,
- clarity in probable future economic benefits to be generated from the asset,
- the availability of adequate technical, financial and other resources to complete the development phase and to start using the asset,
- the availability to measure reliably the expenditure attributable to the asset during the development phase.

The directly attributable development costs of asset are included in the cost of such assets, however the research costs are recognised as expense as incurred.

Subsequent expenditure

Expenditures incurred to replace a component of a tangible and intangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of such assets. All other expenditures are reflected as expense in the statement of profit or loss and other comprehensive income as incurred.

Expenditures for major renewals and improvement of tangible and intangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation

The estimated useful lives and depreciation rates of tangible and intangible assets are as follows. Depreciation method in use was not changed in the current period.

Tangible and intangible assets	***Estimated useful lives (years)***	***Depreciation Rates (%)***
Buildings	50	2
Vaults	50	2
Motor vehicles	5-7	15-20
Other tangible and intangible assets	4-20	5-25

The estimated useful lives, residual values and depreciation methods are reviewed at least once a year, with the effect of any changes in estimate accounted for on a prospective basis.

Significant accounting policies (continued)

Investment property

Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in production, supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property. As of 1 November 2015, changing the existing accounting policy, it has been decided to apply fair value model for investment properties instead of cost model in accordance with the IAS 40. Accordingly, for all the investment properties registered in the ledger, a valuation study was performed by independent expertise firms. Fair value changes in investment properties were accounted retrospectively in the statement of profit or loss and other comprehensive income for the period they occurred.

Investment properties under fair value model are not depreciated.

(g) Goodwill

Goodwill arose from business combinations and represents the excess of the total acquisition costs over the share of the Bank and its subsidiaries in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative, it is recognised immediately in income. Goodwill is assessed for indication of impairment at least annually using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments and carrying value of net assets. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognised as an expense in income. The losses arising from the impairment of goodwill are not reversed in a subsequent period.

(h) Financial instruments

Current period accounting policies for financial instruments

Initial recognition of financial instruments

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. At initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

On which category a financial instrument shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Significant accounting policies (continued)

Assessment of the business model

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation.

During assessment of the business model for management of financial assets, it must be considered all relevant evidence that is available at the date of the assessment. Such relevant evidence includes below:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Assessment of the business model is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

If cash flows are realized in a way that is different from the expectations at the date that it is assessed the business model, that does not give rise to a prior period error in the financial statements nor does it change the classification of the remaining financial assets held in that business model as long as it is considered all relevant information that was available at the time that it made the business model assessment. However, when it is assessed the business model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realized in the past, along with all other relevant information.

The business models are divided into three categories. These categories are defined below:

- 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 realize cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortised cost 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.
- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: it may be held financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted 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.
- Other business models: financial assets are measured at FVPL 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.

Significant accounting policies (continued)

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

A financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is 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.

In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at FVPL.

Measurement categories of financial assets and liabilities

As of 1 January 2018, all financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in four main categories as listed below:

- Financial instruments measured at amortised cost,
- Financial instruments measured at FVOCI, with gains or losses recycled to profit or loss on derecognition,
- Equity instruments measured at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, and
- Financial instruments measured at FVPL.

Financial instruments measured at amortised cost

Starting from 1 January 2018, financial assets are classified as measured at amortised cost if both of the following conditions are met.

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the 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.

Debt securities measured at amortised cost: subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method.

Loans and receivables: financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments and not quoted in an active market.

Loans and receivables are recognised at cost and also measured at amortised cost by using the effective interest method.

All financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at FVPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, and contingent consideration recognised by an acquirer in a business combination.

Significant accounting policies (continued)

Financial instruments measured at FVOCI

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

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

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

Financial assets measured at FVOCI are measured at their fair values subsequently. However, assets for which fair values could not be determined reliably are valued at amortised cost by using the discounting method with internal rate of return for floating-rate securities; and by using valuation models or discounted cash flow techniques for fixed-rate securities. Unrecognised gain/losses derived from the difference between their fair value and the discounted values are recorded in accumulated other comprehensive income or expense to be reclassified to profit or loss under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement accumulated under shareholders' equity are recognised in statement of profit or loss and other comprehensive income.

Interests calculated and/or earned by using the effective interest method during holding of financial assets measured at FVOCI are recorded primarily in interest income. On derecognition of such financial assets, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank owns consumer price indexed government bonds (CPI) portfolio. CPI's are valued and accounted according to the effective interest rate method which is calculated according to the real coupon rate and the reference inflation index on the issue date. As it is mentioned in the Undersecretariat of Treasury's Investor Guide of CPI, the reference index used during the calculation of the actual coupon payment amount is the previous two months CPI's. The Bank determines its expected inflation rates in compliance with this guide. The estimated inflation rate according to the Central Bank of Turkey and the Bank's expectations is updated during the year when it is considered necessary.

Equity instruments measured at FVOCI

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis.

Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

Significant accounting policies (continued)

Financial assets and liabilities measured at FVPL

Financial assets at FVPL are valued at their fair values and gain/loss arising on those assets is recorded in the statement of profit or loss and other comprehensive income. Interest income earned on trading securities and the difference between their acquisition costs and amortised costs are recorded as interest income in the statement of profit or loss and other comprehensive income. The differences between the amortised costs and the fair values of such securities are recorded under net trading income/expense in the statement of profit or loss and other comprehensive income. In cases where such securities are sold before their maturities, the gains/losses on such sales are recorded under net trading income/expense.

It is designated irrevocably certain loans and securities issued at initial recognition, as financial assets/liabilities at FVPL as permitted by IFRS 9.

The interest income/expense earned and the difference between the acquisition costs and the amortised costs of financial liabilities are recorded under interest income/expense in statement of profit or loss and other comprehensive income, the difference between the amortised costs and the fair values of financial liabilities are recorded under net trading income/expense in statement of profit or loss and other comprehensive income. The amount of change in the fair value of the financial liability at FVPL that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income unless it creates accounting mismatch or increase the accounting mismatch. Excluding the change in credit risk of the liability, the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

Derecognition of financial instruments

Derecognition of financial assets due to change in the contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a “new” financial asset.

When it is assessed the characteristics of the new contractual terms of the financial asset, it is also evaluated the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognised a modification gain or loss in profit or loss.

Derecognition of financial liabilities

Where all risks and rewards of ownership of the asset have not been transferred to another party and it is retained control of the asset, it is continued to be recognised the remaining portion of the asset and liabilities arising from such asset.

When it is retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

Significant accounting policies (continued)

Derecognition of a financial asset without any change in the contractual terms

The asset is derecognised if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party.

Except for equity instruments measured at FVOCI, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognised in profit or loss.

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

Reclassification of financial instruments

It shall be reclassified all affected financial assets based on classification principles of IFRS 9 when, and only when, it is changed the business model for managing financial assets.

It is fulfilled the requirements of reclassification during transition to IFRS 9 and such reclassification details are presented in transition disclosures.

Restructuring and refinancing of financial instruments

It may be changed the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future.

Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

Prior period accounting policies for financial instruments

Classification

Financial assets are classified into below 4 categories according to IAS39.

Financial instruments at FVPL are those instruments that are principally held for the purpose of short-term profit taking. These include investments, certain loans and derivative contracts that are not designated as effective hedging instruments, and liabilities from short-term sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

The Bank classifies certain loans at their origination dates, as financial assets at fair value through profit or loss in compliance with IAS 39. Financial assets at fair value through profit or loss are initially recorded at cost and measured at fair value in subsequent periods.

Significant accounting policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its subsidiaries provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Available-for-sale assets are financial assets that are not held for trading purposes, provided by the Bank and its subsidiaries, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank and its subsidiaries have the positive intent and ability to hold to maturity. These include certain loans and advances to banks and customers and certain debt investments.

Recognition

Financial assets at fair value through profit or loss and available-for-sale assets are initially recognised on the settlement date at which the Bank and its subsidiaries become a party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets are recognised in income for the financial assets at fair value through profit or loss and in the other comprehensive income for available for-sale assets.

Held-to-maturity instruments, loans and receivables, deposits and subordinated liabilities are recognised in the statement of financial position on the date they are originated.

Measurement

Financial instruments are initially measured at fair value, including transaction costs except for the financial assets at fair value through profit or loss.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated based on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

The fair values of financial instruments are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is therefore measured with the quoted market prices at the date of the statement of financial position without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in the current market.

The fair values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its subsidiaries would receive or pay to terminate the contracts at the date of the statement of financial position taking into account current market conditions and the current creditworthiness of the counterparties.

Significant accounting policies (continued)

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair values of trading financial instruments are recognised in income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity until the hedged transaction impacts earnings or the available-for-sale assets are sold or impaired.

Specific instruments

Cash and balances with central banks: Cash and balances with central banks comprise cash balances on hand, cash deposited with the central banks and other cash items. Money market placements are classified in loans and advances to banks.

Investment securities: Investment securities held for the purpose of short-term profit taking are classified as trading instruments. Debt securities investments that the Bank and its subsidiaries have the intent and ability to hold to maturity are classified as held-to-maturity assets.

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

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

Factoring receivables: Factoring receivables are stated at fair value at initial recognition. Subsequent to the initial recognition, factoring transactions are accounted for at amortised costs.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired; the Bank (and/or its subsidiaries) retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or the Bank (and/or its subsidiaries) has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank and its subsidiaries commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognised on the dates they are transferred by the Bank and its subsidiaries.

Significant accounting policies (continued)

(i) Derivatives held for risk management purposes

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Bank and its subsidiaries continue to apply hedge accounting in accordance with IAS 39 in this context.

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect the income, the effective portion of changes in the fair value of the derivative are recognised directly in other comprehensive income and presented in hedge reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in other comprehensive income and presented in the hedge reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognised immediately in income.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in income relating to the hedged item.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or a liability with corresponding gain or loss recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

Net investment hedge

When a derivative or non-derivative financial liability is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised directly in the shareholders' equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is

Significant accounting policies (continued)

recognised immediately in income. The amount recognised in the shareholders' equity is removed and included in the income on disposal of the foreign operation.

The foreign currency risk arising from net investments in foreign operations are hedged with long-term foreign currency borrowings and currency translation differences arising from conversion of foreign investments and foreign currency borrowings into TL are accounted for foreign currency translation reserve and hedge reserve, respectively, in equity.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to stand alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to 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 in the case of a non-financial variable that the variable is not specific to contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative but a separate financial instrument. If a hybrid contract contains a host that is an asset within the scope of this standard, it is applied the standard's requirements about classification of financial assets to the entire hybrid contract. The Bank and its subsidiaries do not have either any hybrid contract contains a host that is not an asset within the scope of this standard or a financial instrument which shall be separated from the host and accounted for as derivative under this standard.

(j) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised in the statement of financial position as the related risks and rewards of such securities are not retained. Borrowed securities are recorded under commitments and contingencies. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers depending on the type of counterparty.

(k) Repurchase and resale agreements over investments

The Bank and its subsidiaries enter into purchases of investments under agreements to resell (reverse repo) 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 in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognised in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements and money market fundings", a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

Significant accounting policies (continued)

(l) *Items held in trust*

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

(m) *Financial guarantees*

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

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount or the present value of any expected payment (when a payment under the guarantee has become probable).

(n) *Employee benefits*

(i) Defined benefit plan

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

The Bank has a defined benefit plan ("the Plan") for its employees namely Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı ("the Fund"). The Fund is a separate legal entity and a foundation recognised by an official decree, providing pension and post-retirement medical benefits to all Bank employees entitled to receive such benefits. This benefit plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	30 June 2018	
	Employer	*Employee*
	%	*%*
Pension contributions	15.5	10.0
Medical benefit contributions	6.0	5.0

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") (see Note 25) and b) other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

a) Pension and medical benefits transferable to SSF

As discussed in Note 25, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund's obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognised until the transfer is made, the Bank believes that it is more appropriate to measure the obligation as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law"). The pension disclosures set out in Note 25, therefore reflect the actuarial

Significant accounting policies (continued)

assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

b) Excess benefits not transferable to SSF

The excess benefits, which are not subject to the transfer, are accounted for in accordance with IAS 19, "Employee Benefits". The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognised past service costs and the fair value of any plan assets are deducted.

All actuarial gains and losses stem from the remeasurement of defined benefit obligation and are recognised immediately in other comprehensive income.

(ii) Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its subsidiaries are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

All actuarial gains and losses are recognised immediately in other comprehensive income.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

(o) Operating leases

Leases other than finance leases are classified as operating leases.

As lessor

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

As lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Significant accounting policies (continued)

(p) Taxes on income

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position 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 is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liabilities and assets 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 and its subsidiaries. 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. Deferred tax balances are calculated using the tax rates that are expected to apply to the reporting period or periods when the temporary differences reverse based on the tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

An individual consolidated subsidiary offsets 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 or where the legal right of offset exists.

Current and deferred taxes are recognised in profit or loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Accordingly, deferred taxes related to fair value measurement of financial assets measured at FVOCI, real estates (excluding investment properties), cash flow hedges, net investment hedges and actuarial measurements are recognised in other comprehensive income.

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

(q) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

(r) Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of profit or loss and other comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. Additionally, considering the fact that the increase in the number of shares issued by way of

Significant accounting policies (continued)

bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(s) *Impairment*

Current period accounting policies for impairment

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

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 FVOCI, loan commitments and financial guarantee contracts not measured at FVPL based on IFRS 9 which came into force starting from 1 January 2018. IFRS 9 impairment requirements are not applicable for equity instruments.

At each reporting date, it shall be assessed whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, it shall be used 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, it shall be measured 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, loss allowance regarding such instrument is measured at an amount equal to lifetime expected credit losses.

The expected credit loss is calculated on a collective basis by means of grouping the financial assets having common credit risk features or on an individual basis.

It is 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 change in the risk of a default occurring over the expected life of the financial instrument. The aforementioned policy is presented in this note.

The impairment model having three stages based on the change in credit quality since initial recognition based on IFRS 9 is explained below:

Calculation of expected credit losses

It is calculated expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics. Based on IFRS 9, it is used two different PDs in order to calculate expected credit losses:

- 12-month PD: as the estimated probability of default occurring within the next 12 months.

Significant accounting policies (continued)

- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

It is used internal rating systems for both retail and commercial portfolios. The internal rating models used for the commercial portfolio include customer financial information and qualitative survey responses. Whereas behavioral and application scorecards used in the retail portfolio include; (i) the behavioral data of the customer and the product in the Bank, (ii) the demographic information of the customer, and (iii) the behavioral data of the customer in the sector. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

LGD calculations are performed using historical data which best reflects current conditions, by formation of segments based on certain risk factors that are deemed important for each portfolio and inclusion of forward-looking information and macroeconomic expectations. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money" calculated by means of deducting costs and additional losses from the present value of collections.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjusts the potential increase of the exposure between the current date and the default date.

When expected credit losses are estimated, it is considered four scenarios (base scenario, bad scenario, good scenario, balanced scenario). Each of these four scenarios is associated with different probability of default, loss given default and exposure at default. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date and calculated as the portion of lifetime expected credit losses. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of four scenarios explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, it is calculated an allowance for the lifetime expected credit losses. Including multiple scenario usage, it is similar to descriptions above, but probability of default and loss given default rates are estimated through the life of the instrument. Estimated cash shortfalls are discounted by using the original effective interest rate.

Significant accounting policies (continued)

Stage 3: For the loans considered as impaired, it is accounted lifetime expected credit losses. The methodology is similar to stage 2 and the probability of default is taken into account as 100%.

Loan commitments and non-cash loans

The expected credit losses on a loan commitment shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date when becoming a party to the irrevocable commitment.

Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Debt instruments measured at FVOCI

As of 1 January 2018, it shall be applied the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at FVOCI. However, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The expected credit loss is reflected in other comprehensive income and accounted in profit or loss. The expected credit loss is reflected in other comprehensive income and the accumulated amount is recycled to statement of profit/loss following the derecognition of related financial asset.

Prior period accounting policies for impairment

Loans and receivables and held-to-maturity instruments

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectability. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value using the loans' original effective interest rates. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognised in income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through income.

Significant accounting policies (continued)

Financial assets remeasured to fair value

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments under investment securities and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognised in income.

If in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised in other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

(t) Income and expense recognition

Current period accounting policies for income and expense recognition

Interest income and expense

Interest is recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the IFRS 9 Financial instruments standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, such fees are accounted as revenue or expense when the instrument is initially recognised in the financial statements.

When applying the effective interest method, it is amortised any fees, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument.

In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest income of the period after the acquisition is recorded as interest income in the financial statements.

If the expectations for the cash flows in the financial asset are revised for reasons other than the credit risk, the amendment is reflected in the carrying amount of the asset and in the related statement of profit or loss and other comprehensive income line and is amortised over the estimated life of the financial asset.

If the financial asset is impaired and classified as a non-performing receivable, it is applied the effective interest rate on the amortised cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. It is used effective interest rate during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. Therefore, a reclassification is made between the accounts of “expected credit losses” expense and “interest income from loans” for such calculated interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's

Significant accounting policies (continued)

credit rating), the system calculates interest income at subsequent reporting periods by applying the effective interest rate to the gross amount.

Fee and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognised as the related services are performed in accordance with IFRS 15 Revenue from contracts with customers. 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 expense relates mainly to transaction and service fees, which are expensed as the services are received.

Net trading income/expense

Net trading income/expense includes gains and losses arising from disposals of financial assets measured at FVPL, financial assets measured at FVOCI, and from trading derivatives.

Dividend income

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

Insurance business

Premium income: For short-term insurance contracts, premiums are recognised as income (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at date of the statement of financial position is recognised as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums. For long-term insurance contracts, premiums are recognised as income when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature ("DPF"), are recognised directly as liabilities.

Unearned premium reserve: Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognised in income in the order that income is recognised over the period of risk.

Claims and provision for "outstanding" claims: Claims are recognised in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end.

Incurred but not reported claims ("IBNR") are also provided for under the provision for outstanding claims.

Significant accounting policies (continued)

Liability adequacy test: At each statement of financial position date, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to income.

Income generated from pension business: Income arising from asset management and other related services offered by the insurance subsidiary of the Bank is 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 insurance 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.

Mathematical provisions: Mathematical provisions are the provisions recorded against the liabilities of the insurance subsidiary of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the insurance subsidiary 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 Turkish insurance companies.

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance 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 insurance subsidiary from the eligible surplus available to date.

Mathematical provisions are presented under “other liabilities, accrued expenses and provisions” in the accompanying consolidated financial statements.

Prior period accounting policies for income and expense recognition

Interest income and expense

Interest income and expense is recognised on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, 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 expense relates mainly to transaction and service fees, which are expensed as the services are received.

Net trading income/expense

Net trading income/expense includes gains and losses arising from disposals of financial assets at fair value through profit or loss and available-for-sale, and from trading derivatives.

(u) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered 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 (disposal group) 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.

(v) Segment reporting

An operating segment is a component of the Bank and its subsidiaries that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position and equity including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Assets	**Note**	**31.12.2017**	**IFRS 9 Reclassification Effect**	**IFRS 9 Measurement Effect**	**01.01.2018**
Cash and balances with central banks, net		15,316,618	-	(5,808)	15,310,810
Cash and balances with central banks		*15,316,618*	-	-	*15,316,618*
Expected credit losses on cash and cash equivalents (-)		-	-	*(5,808)*	*(5,808)*
Financial assets at fair value through profit or loss	(1),(2)	1,364,460	158,514	(5,665)	1,517,309
Derivative financial assets		2,617,855	-	-	2,617,855
Loans and advances to banks, net		14,738,053	-	(5,976)	14,732,077
Loans and advances to banks		*14,738,053*	-	-	*14,738,053*
Expected credit losses on loans and advances to banks (-)		-	-	*(5,976)*	*(5,976)*
Loans and advances to customers, net	(4),(6)	233,194,205	-	441,990	233,636,195
Loans and advances to customers – Performing / Stage 1		*225,777,348*	*(27,435,589)*	-	*198,341,759*
Loans and advances to customers – Past due but not impaired and under follow up/ Stage 2		*9,937,822*	*27,412,429*	-	*37,350,251*
Loans and advances to customers – Non-performing / Stage 3		*6,865,296*	*23,160*	-	*6,888,456*
Expected credit losses on cash loans - Stage 1 (-)		*(1,423,850)*	-	*523,321*	*(900,529)*
Expected credit losses on cash loans - Stage 2 (-)		*(2,682,646)*	*6,520*	*(855,263)*	*(3,531,389)*
Expected credit losses on cash loans - Stage 3 (-)		*(5,279,765)*	*(6,520)*	*773,932*	*(4,512,353)*
Investment securities	(2),(3)	50,432,767	(158,514)	443,580	50,717,833
Debt and other instruments at FVOCI		-	*28,646,878*	*590,108*	*29,236,986*
Debt and other instruments at amortised cost, net		-	*21,627,375*	*(146,528)*	*21,480,847*
Debt and other instruments at amortised cost		-	*21,627,375*	*(130,037)*	*21,497,338*
Expected credit losses on debt and other instruments at amortised cost (-)		-	-	*(16,491)*	*(16,491)*
Debt and other instruments available-for-sale portfolio		*26,118,227*	*(26,118,227)*	-	-
Debt and other instruments held-to-maturity		*24,314,540*	*(24,314,540)*	-	-
Equity investments		198,696	-	(304)	198,392
Assets held for sale		835,552	-	-	835,552
Investment properties		328,403	-	-	328,403
Tangible and intangible assets		6,189,894	-	-	6,189,894
Goodwill, net		32,948	-	-	32,948
Deferred tax asset		1,370,747	-	33,845	1,404,592
Other assets, net		25,501,998	-	22,715	25,524,713
Other assets		*25,501,998*	*31,772*	*33,674*	*25,567,444*
Expected credit losses on other assets (-)		-	*(31,772)*	*(10,959)*	*(42,731)*
Total Assets		**352,122,196**	**-**	**924,377**	**353,046,573**

Transition disclosures (continued)

Liabilities	Note	31.12.2017	IFRS 9 Reclassification Effect	IFRS 9 Measurement Effect	01.01.2018
Deposits from banks		1,625,822	-	-	1,625,822
Deposits from customers		199,053,596	-	-	199,053,596
Loans and advances from banks and other institutions		39,021,298	-	-	39,021,298
Obligations under repurchase agreements and money market fundings		18,637,856	-	-	18,637,856
Debt securities issued		20,849,248	-	-	20,849,248
Financial liabilities at fair value through profit or loss		9,371,202	-	-	9,371,202
Derivative financial liabilities		3,111,579	-	-	3,111,579
Subordinated liabilities		2,849,471	-	-	2,849,471
Current tax liability		763,632	-	150,566	914,198
Deferred tax liability		39,828	-	179	40,007
Provisions		3,228,364	-	277,828	3,506,192
Expected credit losses from non-cash loans	(6)	*161,381*	-	*277,828*	*439,209*
Other provisions		*3,066,983*	-	-	*3,066,983*
Other liabilities and accrued expenses		11,645,098	-	-	11,645,098
Total Liabilities		**310,196,994**	**-**	**428,573**	**310,625,567**
Equity					
Share capital		5,146,371	-	-	5,146,371
Share premium		11,880	-	-	11,880
Legal reserves		1,396,218	-	-	1,396,218
Other reserves		2,226,088	-	396,257	2,622,345
Retained earnings	(5)	32,822,485	-	107,356	32,929,841
Non-controlling interests	(5)	322,160	-	(7,809)	314,351
Total Equity		**41,925,202**	**-**	**495,804**	**42,421,006**
Total Liabilities and Equity		**352,122,196**	**-**	**924,377**	**353,046,573**

The details regarding classifications and remeasurements made during first time adoption of IFRS 9 Financial Instruments as of 1 January 2018 are presented below:

(1) "Investment funds" amounting to TL 110,860 thousands classified as "Debt and other instruments available-for-sale portfolio" in the prior year financial statements are classified into "Financial Assets at Fair Value through Profit or Loss" as of 1 January 2018, and the corresponding allowance allocated for such investment funds amounting to TL 5,665 thousands is also classified into the same line item.

(2) As of 1 January 2018, debt securities classified as "Debt and other instruments available-for-sale portfolio" and "Debt and other instruments held-to-maturity" in the prior year financial statements amounting to TL 25,959,712 thousands and TL 2,687,166 thousands, respectively are classified into "Debt and other instruments measured at FVOCI" due to the fact that they are assessed within the scope of a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of such 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. Besides, as of 1 January

Transition disclosures (continued)

2018, financial asset amounting to TL 47,655 thousands is classified from "Debt and other instruments available-for-sale portfolio" into "Financial Assets at Fair Value through Profit or Loss" due to the fact that the contractual terms of such financial asset does not 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. On the other hand, some equity instruments classified as "Available-for-Sale Financial Assets" in the prior period are also classified as "Debt and other instruments measured at FVOCI" irrevocably.

(3) As of 1 January 2018, debt securities amounting to TL 21,627,375 thousands classified as "Debt and other instruments held-to-maturity" in the prior year financial statements are classified into "Debt and other instruments at amortised cost" due to the fact that they are assessed within the scope of a business model whose objective is to hold assets in order to collect contractual payments and 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.

(4) As of 1 January 2018, there exists no loan balance that does not 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. Loans amounting to TL 27,435,589 thousands classified as "Performing Loans" in the prior year financial statements are classified as "Loans and advances to customers- Stage 2" due to having significant increase in credit risk as explained in the accounting policies section in a detailed manner. Besides, as of 1 January 2018, loans amounting to TL 23,165 thousands classified as "Loans under Follow-up" in the prior year financial statements are classified into "Non-performing Receivables" (Stage 3) category.

(5) As of 1 January 2018, due to first time adoption of IFRS 9, total shareholders' equity figure increased by TL 495,804 thousands (after tax) composing of positive classification impact of financial assets amounting to TL 454,103 thousands, positive expected credit losses calculation impact amounting to TL 124,927 thousands and negative current and deferred tax impact amounting to TL 83,225 thousands.

(6) As of 1 January 2018, expected credit losses calculated based on IFRS 9 are classified into the relevant line items. While expected losses calculated for financial assets and loans and advances are classified in the relevant expected losses line items under assets, expected credit losses calculated for non-cash loans are classified as "Provisions" under liabilities. Expected credit losses allocated for other assets are also classified on the relevant line item on a net basis.

Index for the notes to the consolidated financial statements:

Note description	
1	Segment reporting
2	Cash and cash equivalents
3	Related party disclosures
4	Cash and balances with central banks
5	Financial assets at fair value through profit or loss
6	Derivative financial assets
7	Loans and advances to banks
8	Loans and advances to customers
9	Investment securities
10	Equity investments
11	Assets held for sale
12	Investment properties
13	Tangible and intangible assets
14	Goodwill
15	Other assets
16	Deposits from banks
17	Deposits from customers
18	Loans and advances from banks and other institutions
19	Obligations under repurchase agreements and money market fundings
20	Debt securities issued
21	Financial liabilities at fair value through profit or loss
22	Derivative financial liabilities
23	Subordinated liabilities
24	Taxation
25	Provisions
26	Other liabilities and accrued expenses
27	Equity
28	Fair value information
29	Commitments and contingencies
30	Derivative financial instruments
31	Financial risk management disclosures
32	Subsidiaries, associates and structured entities
33	Net fees and commissions income
34	Net trading income/expense
35	Other operating income
36	Other operating expenses
37	Use of estimates and judgements
38	Significant event

1 Segment reporting

The Bank has seven reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

1.1 Geographical segments

The Bank and its subsidiaries operate principally in Turkey, but also have operations in the Netherlands, Romania, Turkish Republic of Northern Cyprus, Malta and Germany. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	30 June 2018				
	Loans and Advances to Customers	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditures***
Turkey	238,319,037	335,766,440	254,526,012	48,690,878	539,205
Romania	9,123,758	11,334,234	8,444,148	370,194	20,081
England	686,220	8,638,177	16,403,667	224,180	-
Netherlands	2,597,597	7,674,628	8,108,325	199,587	7,227
Malta	789,232	3,987,649	305,895	77,648	-
Spain	20,817	2,702,927	472,743	631,597	-
Germany	1,320,824	2,578,945	12,928,991	138,291	25
USA	609,864	2,571,160	7,820,899	4,915,244	-
Switzerland	2,100,097	2,447,896	5,564,806	5,268,692	-
Cyprus	823,158	1,968,308	2,138,848	90,999	-
France	357,196	617,670	3,301,071	344,285	-
Belgium	448,368	500,816	949,327	70,154	-
Austria	401,429	409,772	620,153	8,564	-
Singapore	388,665	388,667	116,754	50,625	-
Luxembourg	149,416	275,594	2,129,251	13	-
Canada	3,918	249,752	630,824	6,186	-
Sweden	168,865	234,262	262,591	27,836	-
United Arabian Emirates	179,304	198,276	6,606,486	2,428,804	-
Japan	109	193,344	17,347	310,995	-
Ireland	69,600	117,539	390,959	3,971	-
Russia	53,739	111,422	140,881	-	-
Italy	32,993	88,601	523,599	652,273	-
China	10,364	79,873	1,640,785	163,021	-
Azerbaijan	3,108	3,126	864,525	356	-
Ukraine	2,253	2,267	36,923	357	-
Qatar	481	486	43,824	1,536	-
Thailand	2	154	490,595	-	-
Others	604,708	759,480	4,016,250	1,071,862	-
	259,265,122	383,901,465	339,496,479	65,748,148	566,538

1 Segment reporting (continued)

	31 December 2017				
	Loans and Advances to Customers	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditures***
Turkey	214,052,934	312,232,158	241,893,545	43,262,472	1,526,204
Romania	7,535,235	9,492,847	6,491,320	348,404	12,929
England	634,510	6,975,367	13,172,531	272,918	-
Netherlands	2,649,722	5,651,327	7,486,497	251,833	6,698
Malta	955,447	3,693,276	363,719	94,740	-
Germany	661,725	2,724,111	5,266,754	2,985,142	-
USA	1,553,443	1,825,802	5,247,903	4,732,353	-
Cyprus	1,170,127	1,816,489	11,087,250	171,054	382
Switzerland	719,483	1,694,504	1,613,058	80,350	-
Spain	98,370	1,548,045	182,109	452,299	-
France	597,159	609,879	3,877,410	1,168,274	-
Belgium	260,278	504,596	2,430,531	368,483	-
Austria	411,062	481,272	226,258	28,090	-
China	384,499	410,061	824,389	40,405	-
Luxembourg	318,803	320,087	328,440	12,517	-
Singapore	171,798	297,545	1,690,030	19	-
Japan	114,358	297,252	1,166,366	161,222	-
United Arabian Emirates	125,133	260,279	49,225	80,597	-
Italy	71	190,870	13,385	264,577	-
Sweden	117,497	119,040	1,000,862	524,989	-
Ireland	67,573	67,586	202,533	1,645	-
Russia	45,537	65,852	126,444	11	-
Canada	8,196	18,701	681,899	-	-
Azerbaijan	4,957	4,981	1,977,920	5,757	-
Ukraine	2,186	2,198	34,754	-	-
Qatar	354	356	109,747	2,550	-
Thailand	16	323	375,132	195	-
Others	533,732	817,392	2,276,983	884,498	-
	233,194,205	352,122,196	310,196,994	56,195,394	1,546,213

Total geographic sector risk concentrations of the net income are presented in the table below:

	Six-month period ended 30 June 2018	***Three-month period ended 30 June 2018***	***Six-month period ended 30 June 2017***	***Three-month period ended 30 June 2017***
Turkey	3,479,203	1,695,837	2,807,847	1,473,780
Malta	292,887	136,091	214,463	95,018
Romania	88,689	49,941	85,763	42,327
Netherlands	57,739	31,790	71,139	32,953
Others	43,327	24,404	39,619	25,785
	3,961,845	1,938,063	3,218,831	1,669,863

1 Segment reporting (continued)

1.2 Business segments

The segments are identified on the basis used by the Group's top management to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

30 June 2018	*Retail Banking*	*Commercial, Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	3,286,971	2,073,584	2,940,777	8,301,332	126,538	339,530	35,098	186,273	139,415	9,128,186	(40,339)	9,087,847
Operating expenses	(1,293,940)	239,136	(2,667,761)	(3,722,565)	(40,108)	(71,161)	(22,066)	(107,938)	(92,175)	(4,056,013)	48,439	(4,007,574)
Income from operations	**1,993,031**	**2,312,720**	**273,016**	**4,578,767**	**86,430**	**268,369**	**13,032**	**78,335**	**47,240**	**5,072,173**	**8,100**	**5,080,273**
Taxation charge	-	-	(998,938)	(998,938)	(18,939)	(59,091)	(3,339)	(17,988)	(16,994)	(1,115,289)	(3,139)	(1,118,428)
Net income for the period	**1,993,031**	**2,312,720**	**(725,922)**	**3,579,829**	**67,491**	**209,278**	**9,693**	**60,347**	**30,246**	**3,956,884**	**4,961**	**3,961,845**
Segment assets	72,254,714	180,756,957	120,162,562	373,174,233	7,120,298	2,424,171	2,793,197	1,060,803	2,034,487	388,607,189	(4,965,983)	383,641,206
Equity investments	-	-	649,387	649,387	10,000	304	-	4,025	3	663,719	(403,460)	260,259
Total assets	**72,254,714**	**180,756,957**	**120,811,949**	**373,823,620**	**7,130,298**	**2,424,475**	**2,793,197**	**1,064,828**	**2,034,490**	**389,270,908**	**(5,369,443)**	**383,901,465**
Segment liabilities	143,218,639	88,127,458	99,628,771	330,974,868	5,982,196	1,768,296	2,570,518	938,089	1,902,856	344,136,823	(4,640,344)	339,496,479
Total equity	-	-	42,848,752	42,848,752	1,148,102	656,179	222,679	126,739	131,634	45,134,085	(729,099)	44,404,986
Total liabilities and equity	**143,218,639**	**88,127,458**	**142,477,523**	**373,823,620**	**7,130,298**	**2,424,475**	**2,793,197**	**1,064,828**	**2,034,490**	**389,270,908**	**(5,369,443)**	**383,901,465**

1 Segment reporting (continued)

	Retail Banking	*Commercial Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
30 June 2017												
Operating income	3,240,577	3,265,657	932,056	7,438,290	170,110	262,214	86,872	156,163	82,198	8,195,847	(53,809)	8,142,038
Operating expenses	(1,728,707)	(1,195,409)	(732,204)	(3,656,320)	(100,300)	(67,478)	(68,845)	(106,691)	(66,221)	(4,065,855)	44,127	(4,021,728)
Income from operations	**1,511,870**	**2,070,248**	**199,852**	**3,781,970**	**69,810**	**194,736**	**18,027**	**49,472**	**15,977**	**4,129,992**	**(9,682)**	**4,120,310**
Taxation charge	-	-	(832,998)	(832,998)	(13,366)	(38,864)	(3,606)	(10,828)	(2,571)	(902,233)	754	(901,479)
Net income for the period	**1,511,870**	**2,070,248**	**(633,146)**	**2,948,972**	**56,444**	**155,872**	**14,421**	**38,644**	**13,406**	**3,227,759**	**(8,928)**	**3,218,831**
31 December 2017												
Segment assets	69,610,939	160,290,973	110,162,083	340,063,995	6,192,921	2,164,306	3,451,880	871,554	1,873,438	354,618,094	(2,694,594)	351,923,500
Equity investments	-	-	587,702	587,702	10,680	304	-	3,466	3	602,155	(403,459)	198,696
Total assets	**69,610,939**	**160,290,973**	**110,749,785**	**340,651,697**	**6,203,601**	**2,164,610**	**3,451,880**	**875,020**	**1,873,441**	**355,220,249**	**(3,098,053)**	**352,122,196**
Segment liabilities	128,802,347	81,860,004	90,651,787	301,314,138	5,144,973	516,106	3,238,895	772,136	1,746,567	312,732,815	(2,535,821)	310,196,994
Total equity	-	-	39,337,559	39,337,559	1,058,628	1,648,504	212,985	102,884	126,874	42,487,434	(562,232)	41,925,202
Total liabilities and equity	**128,802,347**	**81,860,004**	**129,989,346**	**340,651,697**	**6,203,601**	**2,164,610**	**3,451,880**	**875,020**	**1,873,441**	**355,220,249**	**(3,098,053)**	**352,122,196**

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 30 June 2018 and 2017, included in the accompanying consolidated statement of cash flows are as follows:

	30 June 2018	*30 June 2017*
Cash at branches	3,048,782	2,206,886
Unrestricted balances with central banks	6,146,434	8,701,136
Placements at money markets	144,119	14,580
Loans and advances to banks with original maturity periods of less than three months	9,423,838	3,224,768
	18,763,173	14,147,370

3 Related party disclosures

For the purpose of this report, the shareholders either controlling or having executive key management personnel in common with the Bank, BBVA and Doğuş Holding AŞ, and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated subsidiaries are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

3.1 Outstanding balances

	30 June 2018	*31 December 2017*
Statement of financial position		
Loans and advances to banks	2,450,303	1,376,304
Loans and advances to customers	3,215,085	2,765,071
Miscellaneous receivables	1,275	1,159
Deposits from banks	397,929	107,334
Deposits from customers	661,488	680,472
Miscellaneous payables	83,536	144,606
Commitments and contingencies		
Non-cash loans	2,856,148	2,446,246
Derivatives	42,923,440	20,834,050

3.2 Transactions

	Six-month period ended 30 June 2018	*Three-month period ended 30 June 2018*	*Six-month period ended 30 June 2017*	*Three-month period ended 30 June 2017*
Interest, fees and commissions income	108,848	59,845	89,480	44,365
Interest, fees and commissions expenses	11,299	6,941	15,660	9,128
Net trading income/(expense) and foreign exchange gains/(losses), net	(301,261)	(361,258)	(5,723)	(14,807)
Other operating income	471	135	5,458	5,122
Other operating expenses	19,499	12,548	33,154	14,708

In the first half of 2018, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 2%-6% and 1%-3% (31 December 2017: (0.35)%-10% and 1%-4%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 13%-19% and 6%-14%, respectively (31 December 2017: 11%-

3 Related party disclosures (continued)

17% and 6%-15%). Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

As per IFRS 9, expected credit losses amounted to TL 111,453 thousands are recognised against balances outstanding during the period with related parties as of 30 June 2018. No impairment losses or specific allowances have been recorded as of 30 June 2017.

Key management personnel compensation for the six-month period ended 30 June 2018 amounted to TL 69,274 thousands (30 June 2017: TL 70,372 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted to TL 46,766 thousands (30 June 2017: TL 50,192 thousands) and of its subsidiaries amounted to TL 22,508 thousands (30 June 2017: TL 20,180 thousands).

4 Cash and balances with central banks

	30 June 2018	*31 December 2017*
Cash at branches	3,048,787	2,847,903
Balances with central banks excluding reserve deposits	6,144,615	12,468,715
	9,193,402	15,316,618

The credit quality analysis of cash and balances with central banks as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	9,195,215	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(1,813)	-	-
Total carrying amount	9,193,402	-	-

The movement of loss allowances per asset class for cash and balances with central banks as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	5,808	-	-
Balances at 1 January 2018	5,808	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	(6,742)	-	-
Provision for the period	2,732	-	-
Effects of movements in exchange rates	15	-	-
Balances at the end of the period	1,813	-	-

5 Financial assets at fair value through profit or loss

	30 June 2018				31 December 2017
	Face value	Carrying value	Interest rate range %	Latest maturity	Carrying value
Debt and other instruments measured at FVPL:					
Government bonds in TL	309,548	262,411	3-16	2028	542,410
Investment funds	-	109,667	-	-	19,548
Bonds issued by financial institutions	63,487	67,452	3-16	2027	10,937
Eurobonds	41,144	40,732	3-12	2047	16,604
Bonds issued by corporations	20,631	21,773	4-17	2021	31,134
Government bonds indexed to CPI	6,167	11,595	1-4	2025	259,404
Discounted government bonds in TL	36	34	11-12	2019	111
Government bonds-floating ***(a)***		-			2,053
Gold ***(b)***		-			460,212
		513,664			1,342,413
Equity and other non-fixed income instruments:					
Listed shares		56,322			22,047
Total financial assets at fair value through profit or loss		569,986			1,364,460

(a) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

(b) *As of 30 June 2018, gold reserves amounting to TL 541,269 thousands is reclassified from "financial assets at fair value through profit or loss" to "other assets" based on reassessment of the characteristics of the asset in accordance with IFRS 9.*

Income from debt and other instruments held at fair value is reflected in the consolidated statement of profit or loss and other comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at FVPL are recorded in net trading income/expense.

As of 30 June 2018, financial assets at FVPL amounting to TL 14,675 thousands are blocked against asset management operations and securitizations (31 December 2017: TL 15,522 thousands) (refer to Note 9).

As of 30 June 2018, there are TL 13,701 thousands of securities pledged under repurchase agreements with customers (31 December 2017: TL 2,834 thousands).

The credit quality analysis of financial assets at FVPL is as follows as of 30 June 2018:

	30 June 2018		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	569,986	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	-	-	-
Total carrying amount	569,986	-	-

6 Derivative financial assets

Derivative financial assets mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	30 June 2018		31 December 2017
	Trading	Hedging(*)	Total
Swap derivative financial assets	3,385,178	1,162,723	2,183,630
Forward derivative financial assets	582,964	-	199,531
Option derivative financial assets	454,426	-	199,139
Future derivative financial assets	1,046	-	712
Other derivative financial assets	83,325	-	34,843
	4,506,939	1,162,723	2,617,855

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 821,240 thousands and TL 341,483 thousands, respectively.*

As of 30 June 2018, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for cash flow hedges are as follows:

Hedging item	Hedged item	Type of risk	Fair value change of hedged item		Gains/losses accounted under equity	Gains/losses accounted under statement of profit or loss	Ineffective portion (net) accounted under statement of profit or loss
			Asset	Liability			
Interest Rate Swaps	Floating-rate debt securities issued	Cash flow risk resulted from change in market interest rates	-	-	(17)	17	-
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	144,802	(285)	78,431	5,009	1,643
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	125,445	(3,881)	79,297	(7,902)	7,898
Cross Currency Swaps	Mile payments	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	-	-	(1,094)	(248)	-
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	489,957	-	27,266	(18,368)	1
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	61,036	(31,958)	7,767	(7,447)	-
Spot Position(*)	Operational expenses	Cash flow risk resulted from foreign currency exchange rates	178,494	-	28,609	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	(33,374)	37,402	-
			999,734	(36,124)	186,885	8,463	9,542

(*) *Composes of foreign currency items on the asset side of balance sheet.*

6 Derivative financial assets (continued)

As of 30 June 2018, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for fair value hedges are as follows:

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging item		Statement of profit or loss effect
				Asset	Liability	
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	(83,594)	103,706	(28,630)	(8,518)
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	(97,551)	97,946	-	395
Interest Rate Swaps	Fixed-rate debt securities issued	Interest rate risk	(130,652)	137,187	(29,926)	(19,508)
Cross Currency Swaps	Fixed-rate debt securities issued	Interest rate and foreign currency exchange rate risk	29	-	(19,744)	(19,715)
Cross Currency Swaps	Fixed-rate debt securities issued	Interest rate and foreign currency exchange rate risk	9,793	2,644	(13,307)	(870)
Other(*)			110,402	-	(10,420)	(23,089)
			(191,573)	341,483	(102,027)	(71,305)

(*) *Includes firm commitments. See Note 31.4 for details*

As of 30 June 2018, there is not any reclassified amount from the equity to the statement of profit or loss due to the ceased hedging transactions during the current period.

The notional amounts of derivative financial assets are explained in detail in Note 30.

7 Loans and advances to banks

	30 June 2018			*31 December 2017*		
	TL	*Foreign Currency*	*Total*	*TL*	*Foreign Currency*	*Total*
Loans and advances-demand						
Domestic banks	4,701	3,447	8,148	6,430	4,931	11,361
Foreign banks	1,967	8,428,023	8,429,990	4,481	5,873,028	5,877,509
	6,668	8,431,470	8,438,138	10,911	5,877,959	5,888,870
Loans and advances-time						
Domestic banks	1,882,642	1,309,424	3,192,066	932,523	1,306,830	2,239,353
Foreign banks	75,310	8,134,024	8,209,334	140,742	6,389,448	6,530,190
	1,957,952	9,443,448	11,401,400	1,073,265	7,696,278	8,769,543
Placements at money markets	620	143,499	144,119	3,350	-	3,350
Income accrual on loans and advances to banks	26,632	42,190	68,822	49,204	27,086	76,290
Total loans and advances to banks	1,991,872	18,060,607	20,052,479	1,136,730	13,601,323	14,738,053
Less: ECL/Impairment losses	(1,332)	(12,898)	(14,230)	-	-	-
Net loans and advances to banks	1,990,540	18,047,709	20,038,249	1,136,730	13,601,323	14,738,053

7 Loans and advances to banks (continued)

As of 30 June 2018, majority of loans and advances-time are short-term with interest rates ranging between 1%-7% per annum for foreign currency time placements and 1%-23% per annum for TL time placements (31 December 2017: (0.36)%-7% and 1%-18%, respectively).

As of 30 June 2018, loans and advances at domestic and foreign banks include blocked accounts of TL 12,128,649 thousands (31 December 2017: TL 9,243,764 thousands) held against securitizations, fundings and insurance business.

The credit quality analysis of loans and advances to banks is as follows as of 30 June 2018:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	20,051,942	-	-
Stage 2: Watch list	-	537	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(14,230)	-	-
Total carrying amount	20,037,712	537	-

The movement of loss allowances per asset class for loans and advances to banks as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	5,976	-	-
Balances at 1 January 2018	5,976	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	(1,775)	-	-
Provision for the period	4,670	-	-
Effects of movements in exchange rates	5,359	-	-
Balances at the end of the period	14,230	-	-

8 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	30 June 2018	***31 December 2017***
Consumer loans	72,964,357	69,040,236
Mortgage loans	*25,474,663*	*24,830,581*
Credit card receivables	*18,765,331*	*17,967,831*
Auto loans	*2,410,173*	*2,339,458*
General purpose and other consumer loans	*26,314,190*	*23,902,366*
Energy	31,040,346	27,450,279
Service sector	17,791,834	16,276,996
Construction	13,895,947	12,333,468
Food	11,556,510	10,916,782
Textile	10,870,934	9,186,309
Transportation and logistics	10,546,587	9,684,755
Financial institutions	9,611,735	9,098,354
Transportation vehicles and sub-industry	9,141,627	7,375,056
Metal and metal products	8,358,477	6,941,650
Chemistry and chemical products	6,464,893	5,226,844
Tourism	5,929,179	5,364,524
Agriculture and stockbreeding	4,525,273	3,750,865
Durable consumption	4,141,559	3,123,230
Data processing	3,619,612	2,794,048
Machinery and equipment	3,591,631	2,877,161
Stone, rock and related products	3,014,352	2,474,379
Mining	2,406,307	2,404,023
Paper and paper products	1,864,423	1,572,641
Electronic, optical and medical equipment	1,618,183	1,465,279
Plastic products	946,405	992,123
Others	14,105,128	13,077,230
Total performing loans	248,005,299	223,426,232
Financial lease receivables, net of unearned income	6,169,924	5,421,975
Factoring receivables	2,547,181	3,325,886
Income accrual on loans, factoring and financial lease receivables	4,483,685	3,541,077
Non-performing loans, factoring and financial lease receivables (*)	9,151,005	6,865,296
ECL /Impairment losses on loans, factoring and financial lease receivables	(11,091,972)	(9,386,261)
Loans and advances to customers	259,265,122	233,194,205

(*) *Includes related income accruals.*

8 Loans and advances to customers (continued)

As of 30 June 2018, interest rates on loans granted to customers range between 1%-38% (31 December 2017: 1%-31%) per annum for the foreign currency loans and 1%-31% (31 December 2017: 1%-30%) per annum for the TL loans.

The credit quality analysis of cash loans and advances to customers excluding factoring and financial lease receivables, including related income accruals, is as follows as of 30 June 2018:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	206,038,511	-	-
Stage 2: Watch list (*)	-	41,966,788	-
Stage 3.1: Substandard	-	-	2,102,134
Stage 3.2: Doubtful	-	-	1,586,738
Stage 3.3: Loss	-	-	4,478,156
Total loans	206,038,511	41,966,788	8,167,028
Income accrual on loans	2,885,264	1,527,298	180,489
Loss allowance	(974,309)	(4,164,249)	(5,349,119)
Total carrying amount	207,949,466	39,329,837	2,998,398

(*) *The loans granted to the shareholder of a strategically important company operating in the telecommunication sector amounting to US $1,097,099,289.40 and EUR 8,157,255.50 are classified under "Stage 2: Watch list". All creditors have reached an agreement on restructuring the debts granted within the context of the existing loan agreements. As per the agreed structure, it is contemplated that the telecommunication company's shares owned by the mentioned company, representing 55% of its issued share capital, which have been pledged as a guarantee for the existing facilities would be taken over by a special purpose entity which is incorporated or will be incorporated in the Republic of Turkey, and owned by directly or indirectly by the creditors. Completion of the transaction is subject to an agreement to be reached on the contracts of the loan to be restructured with new company, completion of the necessary institutional, administrative and all kinds of approvals and permits, and fulfilling requisite conditions based on the contracts.*

The movement of loss allowances per asset class for cash loans and advances to customers as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	1,422,171	2,665,136	4,945,107
Impact of adopting IFRS 9 at 1 January 2018	(585,560)	714,434	(792,799)
Balances at 1 January 2018	836,611	3,379,570	4,152,308
Transfer to Stage 1	164,050	(162,892)	(1,158)
Transfer to Stage 2	(96,489)	103,844	(7,355)
Transfer to Stage 3	(5,300)	(466,735)	472,035
Debt sales and write-offs	-	-	(565)
Recoveries and reversals	(428,942)	(209,588)	(262,191)
Provision for the period	461,460	1,019,658	843,707
Effects of movements in exchange rates	42,919	500,392	152,338
Balances at the end of the period	974,309	4,164,249	5,349,119

8 Loans and advances to customers (continued)

As of 30 June 2018, movement of non-performing cash loans (Stage 3) is as follows:

	30 June 2018	
	Principal	**Accrual**
Balance at 31 December 2017	6,122,611	54,377
Impact of adopting IFRS 9 at 1 January 2018	6,825	188
Balance at 1 January 2018	6,129,436	54,565
Addition	2,884,751	122,164
Collection	(984,250)	(6,547)
Debt sales and write-offs	(771)	(397)
Effects of movements in exchange rates	137,862	10,704
Balance at the end of the period	8,167,028	180,489

The credit quality analysis of factoring receivables, including related income accruals, is as follows as of 30 June 2018:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	2,470,570	-	-
Stage 2: Watch list	-	76,611	-
Stage 3.1: Substandard	-	-	108,192
Stage 3.2: Doubtful	-	-	27,821
Stage 3.3: Loss	-	-	57,712
Total factoring receivables	2,470,570	76,611	193,725
Income accrual on factoring receivables	30,366	1,045	-
Loss allowance	(8,089)	(2,931)	(129,634)
Total carrying amount	2,492,847	74,725	64,091

The movement of loss allowances per asset class for factoring receivables as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	-	-	75,553
Impact of adopting IFRS 9 at 1 January 2018	8,563	40,830	4,027
Balances at 1 January 2018	8,563	40,830	79,580
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(20)	20	-
Transfer to Stage 3	(44)	(40,561)	40,605
Debt sales and write-offs	-	-	-
Recoveries and reversals	(3,049)	(269)	(2,095)
Provision for the period	2,616	2,449	11,544
Effects of movements in exchange rates	23	462	-
Balances at the end of the period	8,089	2,931	129,634

8 Loans and advances to customers (continued)

As of 30 June 2018, movement of non-performing factoring receivables (Stage 3) is as follows:

	30 June 2018
Balance at 31 December 2017	95,335
Impact of adopting IFRS 9 at 1 January 2018	-
Balance at 1 January 2018	95,335
Addition	99,947
Collection	(1,557)
Debt sales and write-offs	-
Effects of movements in exchange rates	-
Balance at the end of the period	193,725

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	30 June 2018	*31 December 2017*
Financial lease receivables, net of unearned income	6,169,924	5,421,975
Add: non-performing financial lease receivables [(*)]	609,763	592,973
Less: expected credit losses on financial lease receivables	(463,641)	(278,294)
	6,316,046	5,736,654
Income accrual on financial lease receivables	39,712	32,593
Analysis of net financial lease receivables		
Due within 1 year	2,952,712	2,581,281
Due between 1 and 5 years	3,893,545	3,485,493
Due after 5 years	228,196	352,413
Financial lease receivables, gross	7,074,453	6,419,187
Unearned income	(758,407)	(682,533)
Financial lease receivables, net	6,316,046	5,736,654
Analysis of net financial lease receivables		
Due within 1 year	2,572,743	2,280,165
Due between 1 and 5 years	3,526,510	3,125,943
Due after 5 years	216,793	330,546
Financial lease receivables, net	6,316,046	5,736,654

[(*)] *Includes related income accruals.*

The credit quality analysis of financial lease receivables including related income accruals is as follows as of 30 June 2018:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	5,199,219	-	-
Stage 2: Watch list	-	970,705	-
Stage 3.1: Substandard	-	-	98,761
Stage 3.2: Doubtful	-	-	57,900
Stage 3.3: Loss	-	-	452,039
Total financial lease receivables	5,199,219	970,705	608,700
Income accrual on financial lease receivables	35,065	4,647	1,063
Loss allowance	(57,762)	(106,795)	(299,084)
Total carrying amount	5,176,522	868,557	310,679

8 Loans and advances to customers (continued)

The movement of loss allowances per asset class for financial lease receivables as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	1,679	17,510	259,105
Impact of adopting IFRS 9 at 1 January 2018	53,676	93,479	21,360
Balances at 1 January 2018	55,355	110,989	280,465
Transfer to Stage 1	11,636	(9,433)	(2,203)
Transfer to Stage 2	(3,652)	7,980	(4,328)
Transfer to Stage 3	(337)	(12,837)	13,174
Debt sales and write-offs	-	-	(21,867)
Recoveries and reversals	(36,381)	(26,627)	(27,855)
Provision for the period	23,212	20,991	31,738
Effects of movements in exchange rates	7,929	15,732	29,960
Balances at the end of the period	57,762	106,795	299,084

As of 30 June 2018, movement of non-performing financial lease receivables (Stage 3) is as follows:

	30 June 2018	
	Principal	**Accrual**
Balance at 31 December 2017	592,517	456
Impact of adopting IFRS 9 at 1 January 2018	16,072	75
Balance at 1 January 2018	608,589	531
Addition	86,906	417
Collection	(128,666)	-
Debt sales and write-offs	(21,801)	-
Effects of movements in exchange rates	63,672	115
Balance at the end of the period	608,700	1,063

In 2017, the provision for probable losses comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance was TL 4,106,496 thousands as of 31 December 2017. Movements in the allowance for probable losses on loans, factoring and financial lease receivables including the portfolio basis allowances, were as follows:

	31 December 2017
Balance at the beginning of the period	8,246,992
Debt sales and write-offs	(1,274,946)
Recoveries and reversals	(1,333,073)
Provision for the period	3,658,133
Effects of movement in exchange rates	89,155
Balance at the end of the period	9,386,261

9 Investment securities

	30 June 2018				31 December 2017
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments at FVOCI:					
Government bonds indexed to CPI (a)	6,278,292	9,931,747	1-4	2028	-
Government bonds in TL	5,492,181	4,991,060	3-16	2028	-
Eurobonds	4,205,100	4,030,937	3-12	2041	-
Government bonds at floating rates ***(b)***	2,640,992	2,676,184	13	2020	-
Bonds issued by foreign governments	2,023,003	2,156,786	5-7	2028	-
Bonds issued by financial institutions	2,131,780	2,043,368	2-22	2027	-
Bonds issued by corporations	230,675	232,875	9	2028	-
Total debt and other instruments at FVOCI		26,062,957			-
Debt and other instruments at amortised cost:					
Government bonds indexed to CPI ***(a)***	6,924,124	7,537,828	1-14	2025	-
Eurobonds	4,374,425	5,276,271	6-12	2030	-
Government bonds in TL	4,062,481	4,104,305	3-14	2026	-
Government bonds at floating rates ***(b)***	294,949	288,503	13	2020	-
Bonds issued by financial institutions	117,390	114,721	11	2019	-
		17,321,628			-
Income accrual on amortised cost portfolio		3,843,669			-
Total debt and other instruments at amortised cost		21,165,297			-
ECL on amortised cost portfolio		(12,303)			-
Debt and other instruments available-for-sale:					
Government bonds indexed to CPI ***(a)***		-			9,438,417
Government bonds in TL		-			8,960,837
Bonds issued by financial institutions		-			851,637
Eurobonds		-			666,591
Government bonds at floating rates ***(b)***		-			3,513,375
Bonds issued by foreign governments		-			1,957,168
Bonds issued by corporations		-			615,088
Others		-			115,114
Total securities available-for-sale		-			26,118,227
Debt and other instruments held-to-maturity:					
Government bonds indexed to CPI ***(a)***		-			7,298,497
Government bonds in TL		-			2,082,541
Eurobonds		-			7,374,372
Bonds issued by financial institutions		-			3,798,594
Bonds issued by corporations		-			190,537
		-			20,744,541
Income accrual on held-to-maturity portfolio		-			3,569,999
Total securities held-to-maturity		-			24,314,540
Total investment securities		47,215,951			50,432,767

(a) *As disclosed in accounting policies, the Bank values CPI-indexed government bonds in its securities portfolio according to the reference index on the issue date and the index that is calculated according to the expected inflation rate. The inflation rate used during the valuation is being updated during the year when it is considered necessary. The estimated inflation rate which was taken as 8% in the first four months of 2018, was updated to 9% as of 1 May 2018, and to 10% as of 6 June 2018. If the valuation of such securities was performed according to the reference index valid as of 30 June 2018, the fair value change on debt instruments under equity would decrease by TL 210,533 thousands (net), whereas the interest income on securities portfolio would increase by TL 588,965 thousands.*

(b) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

9 Investment securities (continued)

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of debt and other instruments measured at FVOCI are deferred as a separate component of equity.

The credit quality analysis of investment securities measured at FVOCI is as follows as of 30 June 2018:

	30 June 2018		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	26,062,957	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	-	-	-
Total carrying amount	26,062,957	-	-

As of 30 June 2018, expected credit losses amounting to TL 16,627 thousands are recognised under other comprehensive income for debt and other instruments measured at FVOCI.

The credit quality analysis of investment securities measured at amortised cost is as follows as of 30 June 2018:

	30 June 2018		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	21,165,297	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(12,303)	-	-
Total carrying amount	21,152,994	-	-

The movement of loss allowances per asset class for investment securities measured at amortised cost as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	16,491	-	-
Balances at 1 January 2018	16,491	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	(4,947)	-	-
Provision for the period	139	-	-
Effects of movements in exchange rates	620	-	-
Balances at the end of the period	12,303	-	-

9 Investment securities (continued)

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 5,783,421 thousands (31 December 2017: TL 1,910,546 thousands).

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

	30 June 2018		*31 December 2017*	
	Face value	*Carrying value*	*Face value*	*Carrying value*
Deposited at central banks for repurchase transactions	3,887,050	5,792,677	1,082,203	1,126,539
Collateralized to foreign banks	5,103,831	5,674,821	4,118,707	4,444,674
Deposited at central banks for interbank transactions	3,549,215	5,118,891	13,743,494	17,480,021
Deposited at CBT for foreign currency money market transactions	511,068	578,189	1,201,949	1,567,644
Deposited at Borsa Istanbul	509,789	520,533	793,623	1,287,743
Deposited at Clearing Bank (Takasbank)	165,602	176,498	187,679	196,358
Others		17,119		20,684
		17,878,728		26,123,663

10 Equity investments

	30 June 2018		*31 December 2017*	
	Carrying value	*Ownership %*	*Carrying value*	*Ownership %*
Equity investments measured at FVOCI:				
Visa Inc. (*)	187,126	0.00	-	
İstanbul Takas ve Saklama Bankası AŞ	27,636	5.25	-	
Others	45,497		-	
Available-for-sale equity investments:				
Visa Inc. (*)	-		133,853	0.00
İstanbul Takas ve Saklama Bankası AŞ	-		27,636	5.25
Others	-		37,207	
	260,259		198,696	

(*) *represents 0.001001% of ownership in Visa Inc.*

As of 21 June 2016, the acquisition of Visa Europe Ltd. by Visa Inc. was completed. During acquisition, the Bank and one of its consolidated subsidiaries sold their two existing shares in Visa Europe Ltd. with a nominal of EUR 10.00 in exchange of cash consideration amounting to EUR 61,376,433 and of 22.284 shares of new "C Type Visa Inc." shares. The acquired new shares were classified as available for sale at the acquisition date and subsequent to adoption of IFRS 9, reclassified as equity investments measured at FVOCI similar to other shares classified in the same category.

Starting from 1 January 2018, the investment in Motoractive Multiservices SRL, previously accounted under equity investments, is consolidated in the accompanying consolidated financial statements on line by line basis and the cumulative impact of TL 3,167 thousands is accounted in the current period's statement of changes in equity.

The legal name of İMKB Takasbank AŞ was changed as İstanbul Takas ve Saklama Bankası AŞ in 2013. The paid-in capital of İstanbul Takas ve Saklama Bankası AŞ was decided to be increased from TL 60,000 thousands to TL 420,000 thousands by TL 360,000 thousands of which TL 180,000 thousands was in cash, at the ordinary general meeting held on 29 March 2013. The Bank and its consolidated subsidiary participated in this increase by TL 10,539 thousands in cash and also acquired bonus shares of TL 5,135 thousands. The ownership percentage remained the same.

10 Equity investments (continued)

İstanbul Takas ve Saklama Bankası AŞ and other equity investments do not have a quoted market price in an active market and there is a wide range of possible fair value measurements for these investments. The cost represents the best estimate of their fair values within that range and therefore, these investments are accounted at cost in the accompanying consolidated financial statements.

11 Assets held for sale

A tangible asset (or a disposal group) classified as tangible asset held for sale is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as tangible asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

As of 30 June 2018 and 31 December 2017, movements in assets held for sale are as follows:

	30 June 2018	*31 December 2017*
Balance at the beginning of the period	835,552	605,015
Additions	131,443	393,729
Disposals	(124,961)	(165,195)
Fair value changes	14,729	(615)
Effects of movement in exchange rates	2,366	2,618
Balance at the end of the period	859,129	835,552

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 30 June 2018, real estates held for sale have been impaired by TL 20,217 thousands (31 December 2017: TL 34,946 thousands).

As of 30 June 2018, the rights of repurchase on various tangible assets held for sale amounted to TL 210,286 thousands (31 December 2017: TL 471,433 thousands).

12 Investment properties

As of 30 June 2018 and 31 December 2017, movements in investment properties are as follows:

	30 June 2018	*31 December 2017*
Balance at the beginning of the period	328,403	320,426
Additions	746	4,746
Transfers to tangible assets	-	(4,680)
Disposals	(6,150)	-
Fair value changes	-	7,911
Effects of movement in exchange rates	-	-
Balance at the end of the period	322,999	328,403

The investment properties are held for rental purposes.

13 Tangible and intangible assets

Movement in tangible and intangible assets from 1 January to 30 June 2018 is as follows:

	1 January	Additions(*)	Effects of Movement in Exchange Rates	Revaluation Surplus	Disposals and Transfer	30 June
Costs						
Land and buildings	2,846,257	10,865	23,381	1,514	6,857	2,888,874
Furniture, fixture, equipments and motor vehicles	3,892,679	445,034	45,215	-	(225,047)	4,157,881
Leasehold improvements and software	1,453,498	129,030	28,878	-	(25,170)	1,586,236
	8,192,434	584,929	97,474	1,514	(243,360)	8,632,991
Less: Accumulated depreciation						
Buildings	94,946	16,179	2,375	-	(1,160)	112,340
Furniture, fixture, equipments and motor vehicles	1,600,469	186,909	24,215	-	(56,157)	1,755,436
Leasehold improvements and software	954,936	91,233	23,057	-	(15,475)	1,053,751
	2,650,351	294,321	49,647	-	(72,792)	2,921,527
Construction in progress	694,886	61,698	48	-	(8,259)	748,373
	6,236,969					6,459,837
Impairment in value of tangible and intangible assets	(47,075)					(47,102)
	6,189,894					6,412,735

(*)*Starting from 1 January 2018, the investment in Motoractive Multiservices SRL, previously accounted under equity investments, is consolidated in the accompanying consolidated financial statements on a line by line basis. Additions include tangible and intangible asset contribution of this newly consolidated subsidiary amounting to TL 80,089 thousands.*

Movement in tangible and intangible assets from 1 January to 31 December 2017 is as follows:

	1 January	Additions	Effects of Movement in Exchange Rates	Revaluation Surplus	Disposals and Transfer	31 December
Costs						
Land and buildings	2,627,993	20,795	18,424	173,912	5,133	2,846,257
Furniture, fixture, equipments and motor vehicles	3,189,351	1,083,593	28,905	-	(409,170)	3,892,679
Leasehold improvements and software	1,244,803	210,122	28,709	-	(30,136)	1,453,498
	7,062,147	1,314,510	76,038	173,912	(434,173)	8,192,434
Less: Accumulated depreciation						
Buildings	58,867	29,595	843	7,510	(1,869)	94,946
Furniture, fixture, equipments and motor vehicles	1,412,189	320,357	17,384	-	(149,461)	1,600,469
Leasehold improvements and software	809,928	154,076	21,438	-	(30,506)	954,936
	2,280,984	504,028	39,665	7,510	(181,836)	2,650,351
Construction in progress	485,825	231,703	74	-	(22,716)	694,886
	5,266,988					6,236,969
Impairment in value of tangible and intangible assets	(56,251)					(47,075)
	5,210,737					6,189,894

Depreciation expenses of tangible assets for the six-month period ended 30 June 2018 amounted to TL 227,477 thousands (30 June 2017: TL 204,883 thousands) excluding the depreciation expenses of operational lease business as disclosed in Note 35. As of 30 June 2018, TL 66,844 thousands (30 June 2017: TL 38,695 thousands) of depreciation expenses of subsidiaries in operational lease business is netted-off with the net sales of the companies.

13 Tangible and intangible assets (continued)

As of 30 June 2018, the revaluation model effect, net of deferred tax, for real estates under tangible and intangible assets amounting to TL 1,520,492 thousands was accounted under shareholders' equity (31 December 2017: TL 1,516,053 thousands).

As of 30 June 2018, if the real estates were accounted based on cost model instead of revaluation model, the net carrying value would be TL 1,950,942 thousands (31 December 2017: TL 1,881,153 thousands).

As of 30 June 2018, cumulative provisions for land and buildings are TL 47,327 thousands (31 December 2017: TL 57,057 thousands) and TL 225 thousands was reversed (31 December 2017: TL 9,982 thousands) as per the valuation study performed in accordance with IAS 36.

14 Goodwill

Goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring AŞ consisting of the excesses of the total acquisition costs over the fair values of the net assets of these consolidated entities at the dates of their acquisition as follows:

	30 June 2018	*31 December 2017*
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
	32,948	32,948
Impairment of goodwill	-	-
	32,948	32,948

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

15 Other assets

	30 June 2018	*31 December 2017*
Reserve deposits at central banks, net	28,850,139	22,994,858
Prepaid expenses, insurance claims and similar items	1,021,792	838,850
Balances with clearing house	631,036	523,675
Gold (*)	541,269	-
Miscellaneous receivables	537,286	444,280
Option premium receivables	210,345	113,294
Prepaid taxes and taxes/funds to be refunded	181,186	147,377
Insurance premium receivables	43,835	57,405
Others	608,580	382,259
	32,625,468	25,501,998
Expected credit losses for other assets	(48,453)	-
	32,577,015	25,501,998

(*) *As of 30 June 2018, gold reserves amounting to TL 541,269 thousands is reclassified from "financial assets at fair value through profit or loss" to "other assets" based on reassessment of the characteristics of the asset in accordance with IFRS 9.*

15 Other assets (continued)

The credit quality analysis of other assets excluding gold, prepaid taxes and option premium receivables is as follows as of 30 June 2018:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	31,621,883	-	-
Stage 2: Watch list	-	21,412	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	9,906
Stage 3.3: Loss	-	-	39,467
Loss allowance	(11,913)	(2,773)	(33,767)
Total carrying amount	31,609,970	18,639	15,606

The movement of loss allowances per asset class for other assets excluding gold, prepaid taxes and option premium receivables as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	495	467	30,810
Impact of adopting IFRS 9 at 1 January 2018	11,216	2,351	(2,608)
Balances at 1 January 2018	11,711	2,818	28,202
Transfer to Stage 1	221	(219)	(2)
Transfer to Stage 2	(197)	214	(17)
Transfer to Stage 3	(20)	(159)	179
Transfer from prior year provision	-	-	-
Debt sales and write-offs	-	-	(23)
Recoveries and reversals	(3,217)	(1,085)	(2,030)
Provision for the period	3,113	948	3,905
Effects of movements in exchange rates	302	256	3,553
Balances at the end of the period	11,913	2,773	33,767

Reserve deposits at central banks

Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its subsidiaries. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by the Central Bank of Turkey. Turkish Lira reserve deposits earn interest monthly starting from November 2014, and quarterly starting from 2015, to be paid by Central Bank of Turkey on the first business day following the end of March, June, September and December. US$ reserve deposits also earn interest starting from May 2015. The interest rates are calculated by Central Bank of Turkey according to market conditions.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 1% on all customer deposits with an original maturity less than 2 years and 1% on bank deposits of non-EU banks with an original maturity less than 2 years. The reserve deposits are not required to be kept under blocked accounts in the Netherlands, therefore, such balances are classified under "cash and balances with central banks" in Note 4.

15 Other assets (continued)

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US$ for foreign currency liabilities. Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 8% both for RON denominated liabilities with a remaining maturity less than 2 years and foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks' fundings. The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 0.23% for RON reserves 0.02% for Euro reserves and 0.10% for US$ reserves.

16 Deposits from banks

Deposits from banks comprise the following:

	30 June 2018	*31 December 2017*
Payable on demand	5,215,611	918,215
Term deposits	1,607,314	704,868
	6,822,925	1,623,083
Expense accrual on deposits from banks	8,835	2,739
	6,831,760	1,625,822

Deposits from banks include both TL accounts amounting to TL 698,386 thousands (31 December 2017: TL 437,031 thousands) and foreign currency accounts amounting to TL 6,124,539 thousands (31 December 2017: TL 1,186,052 thousands) in total. As of 30 June 2018, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-18% and 2%-3% (31 December 2017: 6%-14% and 1%-3%), respectively.

17 Deposits from customers

Deposits from customers comprise the following:

	30 June 2018			*31 December 2017*
	Demand	*Time*	*Total*	*Total*
Foreign currency	35,407,936	88,607,479	124,015,415	108,902,225
Saving	12,352,143	52,611,056	64,963,199	59,356,078
Commercial	9,278,101	15,040,921	24,319,022	22,815,570
Public and other	1,033,276	4,539,502	5,572,778	4,921,289
Gold and other precious metals	2,387,076	362,771	2,749,847	2,193,409
	60,458,532	161,161,729	221,620,261	198,188,571
Expense accrual on deposits from customers	13,123	1,197,043	1,210,166	865,025
	60,471,655	162,358,772	222,830,427	199,053,596

As of 30 June 2018, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 1%-20% and 1%-8% (31 December 2017: 1%-16% and 1%-9%), respectively.

18 Loans and advances from banks and other institutions

Loans and advances from banks and other institutions comprise the following:

	30 June 2018	*31 December 2017*
Short-term borrowings		
Domestic banks	1,927,937	1,905,903
Foreign banks	15,273,068	13,578,222
	17,201,005	15,484,125
Long-term debts		
Short-term portion	9,749,113	5,667,418
Medium and long-term portion	12,323,625	17,663,226
	22,072,738	23,330,644
Expense accrual on loans and advances from banks and other institutions	295,186	206,529
	39,568,929	39,021,298

As of 30 June 2018, loans and advances from banks and other institutions included various promissory notes amounting to TL 1,400,801 thousands in total with short-term maturities (31 December 2017: TL 761,205 thousands).

As of 30 June 2018, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) US$ 457,000,000 and EUR 670,500,000 with rates of Libor + 1.30% and Euribor + 1.20% per annum with the participation of 38 banks from 17 countries (equivalent of TL 5,657,431 thousands), (ii) US$ 405,000,000 and EUR 648,500,000 with rates of Libor + 1.35% and Euribor + 1.25% per annum with the participation of 38 banks from 18 countries (equivalent of TL 5,302,923 thousands).

Long-term debts comprise the following:

	30 June 2018					*31 December 2017*
	Interest rate%	*Latest maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
Deutsche Bank AG-II	3	2019	US$ 500 millions	2,281,850	-	1,887,900
ICBC	5	2020	US$ 250 millions	-	1,140,925	930,077
Syndicated Loan II	4	2019	US$ 180 millions	-	821,466	679,644
ING DIBA	3	2019	US$ 174 millions	340,005	452,646	373,570
EIB	3-4	2023	US$ 160 millions	101,708	629,216	562,661
Syndicated Loan I	4	2018	US$ 150 millions	684,555	-	-
Bilateral Loan I	5	2019	US$ 145 millions	-	661,737	547,491
Proparco	2	2028	EUR 100 millions	-	532,708	450,670
EIB	9	2020	TL 494 millions	-	493,945	493,721
Bilateral Loan II	4	2019	US$ 50 millions	38,031	190,154	188,790
EFSE	3	2022	EUR 34 millions	59,815	118,422	126,155
OPIC	5	2019	US$ 22 millions	65,717	32,859	54,372
EBRD-II	1	2025	US$ 10 millions	6,443	38,657	34,649
Others				6,170,989	7,210,890	11,333,526
				9,749,113	12,323,625	17,663,226

19 Obligations under repurchase agreements and money market fundings

The Bank and its subsidiaries raise 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-bearing assets, depending on the prevailing interest rates.

19 Obligations under repurchase agreements and money market fundings (continued)

Obligations under repurchase agreements and money market fundings comprise the following:

	30 June 2018	*31 December 2017*
Money market fundings	1,283,551	16,891,443
Obligations under repurchase agreements	5,887,399	1,732,513
Obligations on securities under reverse repurchase agreements	9,707	13,900
	7,180,657	18,637,856

Assets sold under repurchase agreements are further detailed as follows:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
30 June 2018					
Financial assets at fair value through profit or loss	13,701	13,701	14,226	Jul'18	14,232
Investment securities	5,783,421	5,805,384	5,873,173	Jul'18-Feb'25	5,890,727
	5,797,122	5,819,085	5,887,399		5,904,959
31 December 2017					
Financial assets at fair value through profit or loss	2,834	2,834	3,341	Jan'18	3,341
Investment securities	1,910,546	1,925,227	1,729,172	Jan'18-Feb'25	1,739,250
	1,913,380	1,928,061	1,732,513		1,742,591

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 30 June 2018, the maturities of the obligations varied from one day to 80 months and interest rates varied between 1%-20% (31 December 2017: 1%-15%). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

Expense accrual on obligations under repurchase agreements and money market fundings amounting to TL 25,629 thousands (31 December 2017: TL 30,137 thousands) is included in the carrying amount of corresponding liabilities.

20 Debt securities issued

Debt securities comprise the following:

	30 June 2018			31 December 2017
	Latest maturity	Interest rate %	Amount	Amount
Bonds payable of US$ 1,950 millions	2024	3.7-6.4	7,937,123	8,942,300
Bonds payable of TL 6,900 millions	2023	0.1-21.1	6,886,781	8,155,637
Bonds payable of EUR 1,305 millions	2027	3.5-5.7	6,365,082	2,462,092
Bonds payable of RON 385 millions	2019	5.5-6.1	439,857	373,636
Others			-	515,872
Total bonds payable			21,628,843	20,449,537
DPR future flow transactions of US$ 804 millions	2027	3.8-5.0	3,672,990	-
DPR future flow transactions of EUR 285 millions	2022	0.8-1.7	1,519,107	-
Total DPR future flow transactions			5,192,097	-
Expense accrual on bonds payable			465,081	399,711
Expense accrual on DPR future flow transactions			42,694	-
			27,328,715	20,849,248

In April 2013, the Bank established a Global Medium Term Notes (GMTN) program in order to issue bonds and other borrowing instruments in any currency with different series and maturities. In this regard, since May 2013 the Bank issues bills in US$, EUR, CHF, RON, CZK, JPY and AUD with latest maturity in April 2027.

The Bank and/or its consolidated subsidiaries repurchased some of the Group's own Turkish Lira securities with a total face value of TL 116 thousands (31 December 2017: TL 111,041 thousands) and foreign currency securities with a total face value of TL 943,454 thousands (31 December 2017: TL 780,571 thousands), and netted off such securities in the accompanying consolidated financial statements as of 30 June 2018.

As of 30 June 2018, funds obtained abroad through collateralized payment orders including SWIFT MT 103 and similar foreign currency funds equivalent of TL 5,234,791 thousands, are reclassified from "loans and advances from banks and other institutions" into "debt securities issued" based on reassessment of the contractual characteristics of such transactions.

21 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the following:

	30 June 2018	31 December 2017
Securities issued	9,912,102	9,367,375
Other	-	3,827
	9,912,102	9,371,202

As of 30 June 2018, it includes securities issued by the Bank through structured entities amounting to TL 9,870,669 thousands (31 December 2017: TL 9,332,392 thousands) which are classified as financial liabilities at fair value through profit or loss in the accompanying consolidated financial statements in order to eliminate accounting mismatch and another security issued by the Bank amounting to TL 41,433 thousands (31 December 2017: TL 34,983 thousands) which is also classified as financial liabilities at fair value through profit or loss in the accompanying consolidated financial statements for the same purpose.

22 Derivative financial liabilities

Derivative financial liabilities mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	30 June 2018		*31 December 2017*
	Trading	*Hedging*[(*)]	*Total*
Swap derivative financial liabilities	4,173,540	138,151	2,688,524
Forward derivative financial liabilities	473,676	-	197,275
Option derivative financial liabilities	466,866	-	160,800
Future derivative financial liabilities	1,067	-	135
Other derivative financial liabilities	149,389	-	64,845
	5,264,538	138,151	3,111,579

[(*)] *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 36,124 thousands and TL 102,027 thousands, respectively.*

The notional amounts of derivative financial liabilities are explained in detail in Note 30.

23 Subordinated liabilities

Subordinated liabilities comprise the following:

	30 June 2018			*31 December 2017*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Subordinated debt of EUR 750 millions	2027	6.125	3,422,775	2,831,850
Expense accrual on subordinated liabilities			21,297	17,621
			3,444,072	2,849,471

On 23 May 2017, the Bank had obtained a 10-year subordinated loan of US$ 750 millions due in May 2027 with its first Basel III compliant Tier 2 issuance from international capital markets, with a coupon rate of 6.125%.

24 Taxation

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. This rate is applied to tax base which is calculated by adding certain non deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

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 nonresident 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 nonresident 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.

24 Taxation (continued)

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

75% of earnings generated through sale of equity shares, founders' shares, redeemed shares and pre-emption rights and 50% of earnings generated through sale of real estates held at least for two years by the institutions are exempt from the corporate tax with the conditions that such earnings shall be held in a special reserve account under equity until the end of five years following the year of sale and shall be collected as cash until the end of the following two fiscal years.

All earnings generated through transfer of equity shares, founders' shares, redeemed shares and pre-emption rights by the companies being under legal proceedings or guarantor and mortgage provider of such companies, to banks, financial leasing companies and finance companies or the Savings Deposit Insurance Fund in connection with liquidation of their liabilities and earnings of banks, financial leasing companies and finance companies through sale of immovable part of such assets or other items are exempt from corporate tax at the rate of 50% and 75%, respectively.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each subsidiary.

Tax applications for foreign branches

NORTHERN CYPRUS

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal installments in May and October.

MALTA

The corporate earnings are subject to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The earnings of the foreign corporations' branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not subject to an additional tax. The taxes payable is calculated by the obligating firm and the calculation is presented in the tax declaration form that is due till the following year's month of November.

24 Taxation (continued)

Tax applications for foreign subsidiaries

THE NETHERLANDS

In the Netherlands, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200,000 and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax rate for the Germany branch is 30%.

ROMANIA

The applicable corporate tax rate in Romania is 16%. The taxation system in Romania is continuously developing and is subject to varying interpretations and constant changes, which may become rarely retroactive. In Romania, tax periods remain open for tax audits for seven years. Tax losses can be carried forward to offset against future taxable income for seven years.

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	30 June 2018	*%*	***30 June 2017***	*%*
Taxes on income per statutory tax rate	1,117,660	22.00	824,062	20.00
Disallowable expenses	24,809	0.49	12,879	0.31
Income items exempt from tax or subject to different tax rates	(10,919)	(0.21)	(48,043)	(1.16)
General reserve	-	-	84,000	2.04
Others	(13,122)	(0.26)	28,581	0.69
Taxation charge	1,118,428	22.02	901,479	21.88

The taxation charge is comprised of the following:

	For the six-month period ended	
	30 June 2018	***30 June 2017***
Current taxes	1,071,248	1,062,215
Deferred taxes	47,180	(160,736)
Taxation charge	1,118,428	901,479

The movement of current tax liability is as follows:

	30 June 2018	***31 December 2017***
Balance at the beginning of the period	763,632	120,542
Current period taxation charge	1,071,248	2,287,453
Less: Advance taxes paid during the period	(1,260,054)	(1,644,363)
Current tax liability	574,826	763,632

24 Taxation (continued)

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

Deferred tax assets and liabilities are as follows:

	30 June 2018	*31 December 2017*
Total deferred tax assets	1,916,240	1,721,294
Off-setted amount	(432,232)	(350,547)
Deferred tax assets per financial statements	1,484,008	1,370,747
Total deferred tax liabilities	468,066	390,375
Off-setted amount	(432,232)	(350,547)
Deferred tax liabilities per financial statements	35,834	39,828
Net deferred tax assets	1,448,174	1,330,919

Movements in deferred tax assets and liabilities are detailed in the table below:

	Opening balance (*)	*Recognised in statement of profit or loss*	*Effects of movement in exchange rates*	*Recognised in equity*	*Closing balance*
30 June 2018					
Expected credit losses	1,076,297	215,807	1,382	562	1,294,048
Discount on loans and advances to customers	91,931	25,281	-	-	117,212
Reserve for employee severance indemnity	83,606	9,174	3	-	92,783
Short-term employee benefits	105,413	13,345	95	-	118,853
Tax losses carried forward	69,904	10,600	4,086	(182)	84,408
Valuation difference on financial assets and liabilities	82,921	(241,301)	6,606	122,447	(29,327)
Revaluation surplus on real estates	(195,311)	-	(1,468)	-	(196,779)
Impairment of equity investments, tangible and intangible assets	6,917	(3,677)	2	-	3,242
Accruals on credit card rewards	23,600	2,725	-	-	26,325
Pro-rata basis depreciation expenses	(111,903)	(1,907)	-	-	(113,810)
Others, net	131,210	(77,227)	(2,764)	-	51,219
Net deferred tax assets	1,364,585	(47,180)	7,942	122,827	1,448,174

(*) *The opening balance includes the IFRS 9 transition impact of TL 33,666 thousands.*

	Opening balance	*Recognised in statement of profit or loss*	*Effects of movement in exchange rates*	*Recognised in equity*	*Closing balance*
31 December 2017					
Impairment losses on loans	682,761	304,596	158	-	987,515
Discount on loans and advances to customers	94,556	(2,625)	-	-	91,931
Reserve for employee severance indemnity	69,570	9,555	-	4,481	83,606
Short-term employee benefits	73,121	32,199	93	-	105,413
Tax losses carried forward	40,367	23,791	1,837	-	65,995
Valuation difference on financial assets and liabilities	(192,606)	307,667	3,063	23,822	141,946
Revaluation surplus on real estates	(25,315)	(14,254)	(531)	(155,211)	(195,311)
Impairment of equity investments, tangible and intangible assets	15,127	(8,210)	-	-	6,917
Accruals on credit card rewards	18,867	4,733	-	-	23,600
Pro-rata basis depreciation expenses	(81,949)	(29,963)	9	-	(111,903)
Others, net	138,783	(9,108)	481	1,054	131,210
Net deferred tax assets	833,282	618,381	5,110	(125,854)	1,330,919

24 Taxation (continued)

Transfer pricing

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of "Disguised Profit Distribution by Way of Transfer Pricing". "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" published at 18 November 2007, explains the application related issues on this topic.

According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm's length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

As stated in the "7.1 Annual Documentation" section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

25 Provisions

The principal components of provisions are as follows:

	30 June 2018	***31 December 2017***
General reserve (*)	1,160,000	1,160,000
Short term employee benefits	549,194	492,140
Reserve for employee severance indemnity	482,487	437,642
Expected credit losses from non-cash loans	455,273	161,381
Insurance business related provisions	451,178	389,850
Provisions for litigations	294,195	248,873
Other provisions (**)	332,625	338,478
	3,724,952	3,228,364

(*) *As of 30 June 2018, general reserves amounting to TL 1,160,000 thousands (31 December 2017: TL 1,160,000 thousands) are provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions.*

(**)*As of 30 June 2018, it includes provisions for credit card rewards and promotions amounting to TL 125,866 thousands (31 December 2017: TL 112,434 thousands).*

Recognised liability for defined benefit obligations

(i) Defined benefit plan

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, was originally set to be within three years from the enactment of the New Law in May 2008, however, has been postponed for two years as per the decision of the Council of Ministers published on 9 April 2011 as further explained below. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by IAS 19 Employee Benefits as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

25 Provisions (continued)

The obligation with respect to excess benefits is accounted for as a defined benefit plan under IAS 19.

a) Pension and medical benefits transferable to SSF

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

The Bank obtained an actuarial report regarding its obligations at 31 December 2006. This report, which was dated 12 February 2007, is from an actuary, who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial statement of financial position of the Fund has been prepared using a discount rate of 10.24% and the CSO 1980 mortality table. Based on the actuarial report, the assets of the plan exceeded the amount that would be required to be paid to transfer the obligation at 31 December 2006. In accordance with the existing legislation at 31 December 2006, the pension and medical benefits within the social security limits were subject to transfer and the banks were not required to provide any excess social rights and payments.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account. At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional Article no. 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, numbered 2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional Article no. 20 of the Social Security and Public Health Insurance Law no.5510.

On 19 June 2008, the main opposition party Cumhuriyet Halk Partisi ("CHP") applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article no. 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the Article no. 73 and the first paragraph of the provisional Article no. 20 added to the law no. 5510 are not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request was denied with the majority of votes.

25 Provisions (continued)

Before the completion of two-years period set by the Council of Ministers on 14 March 2011 as explained above, as per the Article no. 51 of the law no. 6645, published in the Official Gazette no. 29335 dated 23 April 2015, the Article no. 20 of the law no. 5510 was amended giving the Council of Ministers the authority to determine the date of transfer without defining any timeline.

The Bank obtained an actuarial report dated 13 December 2017 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that would be required to be paid to transfer the obligation at 30 June 2018.

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually. As per the calculation as of 31 December 2017, the present value of funded obligations amounted to TL 483,864 thousands and the fair value of the planned assets amounted to TL 3,609,349 thousands.

	31 December 2017
Present value of funded obligations	
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(989,677)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	551,028
- General administrative expenses	(45,215)
	(483,864)
Fair value of plan assets	3,609,349
Asset surplus in the plan (*)	3,125,485

(*) *Asset surplus in this plan will be used to cover the excess benefits not transferable to SSF.*

Plan assets consisted of the following:

	31 December 2017
Cash and due from banks	2,150,656
Securities	1,361,262
Land and buildings	96,845
Other	586
	3,609,349

b) Excess benefits not transferable to SSF

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF. Therefore these excess benefits are accounted for as an ongoing defined benefit plan.

25 **Provisions** (continued)

Asset surplus/(shortage) on present value of defined benefit obligation is as follows:

	31 December 2017
Present value of defined benefit obligations	
- Pension	(846,997)
- Health	(1,080,423)
Fair value of plan assets [(*)]	3,125,485
Asset surplus over present value of defined benefit obligation	1,198,065

[(*)] *Plan assets are composed of asset surplus in the plan explained in paragraph* a).

As per the actuarial calculation performed as of 31 December 2017 detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully cover the benefits not transferable and still a surplus of TL 1,198,065 thousands remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 551,028 thousands as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF. However, despite this treatment there was no excess obligation that needed to be provided against as of 31 December 2017.

	31 December 2017
Asset surplus over present value of defined benefit obligation	1,198,065
Net present value of medical benefits and health premiums transferable to SSF	(551,028)
Present value of asset surplus/(defined benefit obligation)	647,037

Expenses recognised regarding this benefit plan in the accompanying consolidated statement of profit or loss and other comprehensive income for the first half of 2018 and 2017 are as follows:

	30 June 2018	***30 June 2017***
Total contribution payment	158,537	148,133
Provision for unfunded liability	-	-
	158,537	148,133

Principal actuarial assumptions used were as follows:

	31 December 2017
	%
Discount rates [(*)]	11.60
Inflation rates [(*)]	8.40
Future real salary increase rates	1.5
Medical cost trend rates	50% above inflation
Future pension increase rates [(*)]	8.40

[(*)] *The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.*

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 17 for males, and at age 58 for females is 23.

25 **Provisions** (continued)

The sensitivity analysis of defined benefit obligation of excess liabilities is as follow as of 31 December 2017:

	% change in defined benefit obligation		
	Pension Benefits	**Medical Benefits**	**Overall**
Assumption change	**%**	**%**	**%**
Discount rate +1%	(13.9)	(19.0)	(16.8)
Discount rate -1%	17.8	26.1	22.4
Medical inflation +10% of CPI		20.8	11.6
Medical inflation -10% of CPI		(16.2)	(9.1)

Short-term employee benefits

Movement in the provision for short-term employee benefits is as follows:

	30 June 2018	**31 December 2017**
Balance, beginning of the period	492,140	380,459
Payments	(177,199)	(221,508)
Provision for the period, net	234,253	333,189
Balance, end of the period	549,194	492,140

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	30 June 2018	**31 December 2017**
Reserve for unearned premiums, net	76,199	70,606
Gross	*99,899*	*95,761*
Reinsurers' share	*(23,700)*	*(25,155)*
Provision for claims, net	36,472	35,019
Gross	*50,583*	*48,580*
Reinsurers' share	*(14,111)*	*(13,561)*
Life mathematical reserves	338,507	284,225
	451,178	389,850

Reserve for employee severance indemnity

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

	30 June 2018	**31 December 2017**
Balance, beginning of the period	437,642	367,583
Payments	(29,730)	(51,603)
Provision for the period	74,575	99,170
Actuarial gain/loss	-	22,492
Balance, end of the period	482,487	437,642

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are full TL 5,001.76 and full TL 4,732.48 as of 30 June 2018 and 31 December 2017, respectively.

25 **Provisions** (continued)

The principal actuarial assumptions for the Bank and its consolidated subsidiaries are as follows:

	30 June 2018 (*)	*31 December 2017* (*)
	%	%
Discount rates	3.04	3.04
Interest rates	11.70	11.70
Expected rates of salary increases	9.90	9.90
Inflation rates	8.40	8.40

(*) *The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.*

The sensitivity analysis of reserve for employee severance indemnity for the Bank is as follows as of 31 December 2017:

	% change in employee severance indemnity	
	Sensitivity of Past Service Liability	***Sensitivity of Normal Cost***
Assumption change	*%*	*%*
Discount rate +1%	(12.2)	(16.3)
Discount rate -1%	14.8	20.4
Inflation rate +1%	14.4	20.0
Inflation rate -1%	(11.8)	(15.9)

Expected credit losses from non-cash loans

Movement in expected credit losses from non-cash loans as of 30 June 2018 is as follows:

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	61,393	49,108	50,880
Impact of adopting IFRS 9 at 1 January 2018	53,579	156,309	67,940
Balances at 1 January 2018	114,972	205,417	118,820
Transfer to Stage 1	27,349	(21,605)	(5,744)
Transfer to Stage 2	(9,175)	11,864	(2,689)
Transfer to Stage 3	(221)	(16,126)	16,347
Transfer from prior year provision	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	(51,671)	(51,682)	(55,399)
Provision for the period	60,193	60,731	24,444
Effects of movements in exchange rates	3,448	17,153	8,847
Balances at the end of the period	144,895	205,752	104,626

Movement in provision for non-cash loans as of 31 December 2017 is as follows:

	31 December 2017
Balance, beginning of the period	212,084
(Reversal)/provision for the period, net	(50,703)
Balance, end of the period	161,381

26 Other liabilities and accrued expenses

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

	30 June 2018	***31 December 2017***
Blocked accounts against expenditures of card holders	9,998,372	9,034,138
Miscellaneous payables	624,479	877,218
Withholding taxes	451,365	394,637
Transfer orders	278,430	225,896
Expense accruals	247,549	311,513
Dividend payable	181,524	-
Option premium payables	178,511	149,837
Advances received	167,234	139,823
Payables to suppliers relating to financial lease activities	141,051	111,949
Unearned income	131,070	110,415
Payables to insurance and reinsurance companies relating to insurance business	38,135	40,297
Blocked accounts	36,006	42,048
Cash guarantees obtained	11,724	16,818
Others	176,066	190,509
	12,661,516	11,645,098

27 Equity

Share capital

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 30 June 2018.

Legal reserves

As per the decisions made at the annual general assemblies of the Bank and its subsidiaries, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 1,573,192 thousands (31 December 2017: TL 1,396,218 thousands) in total.

For the Bank and its Turkish subsidiaries, the legal reserves are generated by annual appropriations amounting to 5% of the statutory income until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

The Bank's subsidiaries in Romania also allocate legal reserves in accordance with the requirements of statutory laws and regulations applicable for each entity. According to the relevant legislation, legal reserves include annual allocations of 5% of the statutory income before tax. According to the relevant legislation, the legal reserve cannot exceed 20% of the share capital.

The Bank's subsidiary in the Netherlands is not subject to any legal reserve requirements.

27 **Equity** (continued)

Unrealized gains/(losses) from fair value changes on debt instruments and equity investments measured at FVOCI/available-for-sale assets

	30 June 2018 (*)	*31 December 2017*
Balance at the beginning of the period	78,293	(543,775)
Net unrealized (losses)/gains from changes in fair value	(692,781)	211,389
Related deferred and current income taxes	105,713	(22,828)
Net (losses)/gains recycled to the statement of comprehensive income on disposal	(9,305)	38,543
Related deferred and current income taxes	1,841	(7,820)
Changes resulted from disposal of assets		-
Effect of movements in foreign exchange rates	(48,984)	6,527
Balance at the end of the period	(565,223)	(317,964)

(*) *Includes IFRS 9 transition impact of TL 396,257 thousands.*

Hedge reserve

The hedge reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 31.4 for the details) and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

Non-controlling interests

As of 30 June 2018, net non-controlling interests amount to TL 167,397 thousands (31 December 2017: TL 322,160 thousands). Non-controlling interests are detailed as follows:

	30 June 2018	*31 December 2017*
Capital	55,219	55,219
Retained earnings and other reserves	77,602	211,023
Net income for the period	34,576	55,918
	167,397	322,160

28 **Fair value information**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks,

28 Fair value information (continued)

obligations under repurchase agreements and money market fundings, loans and advances from banks and other institutions, and other short-term assets and liabilities that are of a contractual nature.

Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to customers is TL 261,414,636 thousands (31 December 2017: TL 234,849,390 thousands), whereas the carrying amount is TL 259,265,122 thousands (31 December 2017: TL 233,194,205 thousands) in the accompanying consolidated statement of financial position as of 30 June 2018.

Fair value of investment securities is TL 46,749,562 thousands (31 December 2017: TL 50,718,492 thousands), whereas the carrying amount is TL 47,215,951 thousands (31 December 2017: TL 50,432,767 thousands) in the accompanying consolidated statement of financial position as of 30 June 2018.

The table below analyzes financial instruments carried at fair value, by valuation method:

30 June 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss	472,749	10,974	86,263	569,986
Derivative financial assets	6,352	5,663,310	-	5,669,662
Debt and other instruments measured at FVOCI	18,100,436	7,894,867	67,654	26,062,957
Financial Assets at Fair Value	18,579,537	13,569,151	153,917	32,302,605
Financial liabilities at fair value through profit or loss	41,433	9,870,669	-	9,912,102
Derivative financial liabilities	2,062	5,400,627	-	5,402,689
Financial Liabilities at Fair Value	43,495	15,271,296	-	15,314,791

31 December 2017	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss	1,361,656	87	2,717	1,364,460
Derivative financial assets	1,205	2,616,650	-	2,617,855
Debt and other instruments available-for-sale	23,627,090	2,384,564	106,573	26,118,227
Financial Assets at Fair Value	24,989,951	5,001,301	109,290	30,100,542
Financial liabilities at fair value through profit or loss	38,810	9,332,392	-	9,371,202
Derivative financial liabilities	230	3,111,349	-	3,111,579
Financial Liabilities at Fair Value	39,040	12,443,741	-	12,482,781

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As of 30 June 2018, the movement of Level 3 financial instruments is as follows:

	30 June 2018
Balance at the beginning of the period	109,290
Additions	5,800
Disposals	(26,744)
Transfers, net	44,774
Effects of valuation differences	6,480
Effects of movement in exchange rates	14,317
Balance at the end of the period	153,917

28 Fair value information (continued)

Fair value measurement of financial instruments is disclosed under significant accounting policies (h).

29 Commitments and contingencies

In the ordinary course of business, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	30 June 2018	***31 December 2017***
Letters of guarantee	44,810,228	39,689,501
Letters of credit	19,450,573	14,769,516
Acceptance credits	1,424,514	1,550,650
Other guarantees and endorsements	62,833	185,727
	65,748,148	56,195,394

As of 30 June 2018;

- Commitment for unpaid capital of subsidiaries companies amounts to TL 6,111 thousands (31 December 2017: TL 6,443 thousands).
- Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments amount to TL 56,135,733 thousands (31 December 2017: TL 49,602,910 thousands) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 1,834,034 thousands (31 December 2017: TL 1,465,918 thousands) in total.

As of 30 June 2018, the securities acquired under security borrowing transactions include shares with total market and carrying values of TL 10,413 thousands (31 December 2017: TL 28,116 thousands).

30 Derivative financial instruments

As of 30 June 2018, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 196,127,022 thousands (31 December 2017: TL 170,224,948 thousands), approximately 85% of which are due within a year.

The following tables summarize the notional amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognised in the statement of profit or loss and other comprehensive income, except for contracts of cash flow hedges as stated above.

30 Derivative financial instruments (continued)

	Notional amount with remaining life of					
30 June 2018	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps (*)	1,093	1,544	17,797	29,497	886,606	936,537
Purchases	*730*	*949*	*14,514*	*26,451*	*744,669*	*787,313*
Sales	*363*	*595*	*3,283*	*3,046*	*141,937*	*149,224*
Interest rate options	-	-	-	3,431,244	4,458,434	7,889,678
Purchases	-	-	-	*1,715,622*	*2,229,217*	*3,944,839*
Sales	-	-	-	*1,715,622*	*2,229,217*	*3,944,839*
Interest rate futures	-	59,887	-	-	-	59,887
Purchases	-	*30,130*	-	-	-	*30,130*
Sales	-	*29,757*	-	-	-	*29,757*
Other Derivatives						
Securities, shares and index options	2,048	41,573	7,665	236	-	51,522
Purchases	*2,048*	*28,892*	*7,665*	*146*	-	*38,751*
Sales	-	*12,681*	-	*90*	-	*12,771*
Other forward contracts	343,563	71,516	-	-	-	415,079
Purchases	*177,251*	*40,308*	-	-	-	*217,559*
Sales	*166,312*	*31,208*	-	-	-	*197,520*
Other future contracts	1,780	42,056	-	-	-	43,836
Purchases	-	*5,283*	-	-	-	*5,283*
Sales	*1,780*	*36,773*	-	-	-	*38,553*
Other swap contracts	32,124	567,305	60,565	63,494	18,010,249	18,733,737
Purchases	-	-	*533*	*3,651*	*7,533,299*	*7,537,483*
Sales	*32,124*	*567,305*	*60,032*	*59,843*	*10,476,950*	*11,196,254*
Currency Derivatives						
Spot exchange contracts	8,894,309	-	-	-	-	8,894,309
Purchases	*4,123,612*	-	-	-	-	*4,123,612*
Sales	*4,770,697*	-	-	-	-	*4,770,697*
Forward exchange contracts	16,074,079	4,710,860	3,416,916	1,900,827	769,095	26,871,777
Purchases	*10,940,688*	*3,471,884*	*2,031,758*	*969,785*	*496,481*	*17,910,596*
Sales	*5,133,391*	*1,238,976*	*1,385,158*	*931,042*	*272,614*	*8,961,181*
Currency/cross currency swaps	59,250,494	22,713,119	10,014,044	9,009,561	3,399,467	104,386,685
Purchases	*36,880,205*	*12,956,009*	*4,933,164*	*4,867,078*	*1,116,186*	*60,752,642*
Sales	*22,370,289*	*9,757,110*	*5,080,880*	*4,142,483*	*2,283,281*	*43,634,043*
Options	6,619,806	6,235,643	5,057,271	8,796,116	829,632	27,538,468
Purchases	*4,610,081*	*3,058,716*	*2,772,691*	*5,410,241*	*100,206*	*15,951,935*
Sales	*2,009,725*	*3,176,927*	*2,284,580*	*3,385,875*	*729,426*	*11,586,533*
Foreign currency futures	68,411	147,214	-	89,882	-	305,507
Purchases	*68,411*	*122,112*	-	*89,882*	-	*280,405*
Sales	-	*25,102*	-	-	-	*25,102*
Subtotal Purchases	56,803,026	19,714,283	9,760,325	13,082,856	12,220,058	111,580,548
Subtotal Sales	34,484,681	14,876,434	8,813,933	10,238,001	16,133,425	84,546,474
Total of Transactions	91,287,707	34,590,717	18,574,258	23,320,857	28,353,483	196,127,022

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

30 Derivative financial instruments (continued)

	Notional amount with remaining life of					
31 December 2017	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps (*)	2,749	89	2,013	18,114	747,092	770,057
Purchases	*265*	*89*	*1,576*	*14,176*	*523,497*	*539,603*
Sales	*2,484*	-	*437*	*3,938*	*223,595*	*230,454*
Interest rate options	-	-	2,433,322	-	7,803,360	10,236,682
Purchases	-	-	*1,216,661*	-	*3,901,680*	*5,118,341*
Sales	-	-	*1,216,661*	-	*3,901,680*	*5,118,341*
Interest rate futures	-	18,879	-	-	-	18,879
Purchases	-	-	-	-	-	-
Sales	-	*18,879*	-	-	-	*18,879*
Other Derivatives						
Securities, shares and index options	4,286	27,177	345	-	-	31,808
Purchases	*2,271*	*21,787*	*345*	-	-	*24,403*
Sales	*2,015*	*5,390*	-	-	-	*7,405*
Other forward contracts	26,982	16,422	77,881	9,501	-	130,786
Purchases	*17,807*	*14,885*	*44,406*	*4,727*	-	*81,825*
Sales	*9,175*	*1,537*	*33,475*	*4,774*	-	*48,961*
Other future contracts	-	41,718	-	-	-	41,718
Purchases	-	*2,484*	-	-	-	*2,484*
Sales	-	*39,234*	-	-	-	*39,234*
Other swap contracts	77,393	77,864	4,429	13,028	15,580,738	15,753,452
Purchases	*13,970*	-	-	*453*	*6,307,095*	*6,321,518*
Sales	*63,423*	*77,864*	*4,429*	*12,575*	*9,273,643*	*9,431,934*
Currency Derivatives						
Spot exchange contracts	3,859,560	-	-	-	-	3,859,560
Purchases	*1,039,809*	-	-	-	-	*1,039,809*
Sales	*2,819,751*	-	-	-	-	*2,819,751*
Forward exchange contracts	10,171,541	3,284,644	1,914,394	1,209,407	516,857	17,096,843
Purchases	*6,741,378*	*1,748,361*	*1,240,511*	*706,384*	*306,611*	*10,743,245*
Sales	*3,430,163*	*1,536,283*	*673,883*	*503,023*	*210,246*	*6,353,598*
Currency/cross currency swaps	62,287,303	21,096,853	12,676,952	8,835,273	2,934,048	107,830,429
Purchases	*37,319,153*	*11,839,061*	*6,133,630*	*2,959,985*	*990,605*	*59,242,434*
Sales	*24,968,150*	*9,257,792*	*6,543,322*	*5,875,288*	*1,943,443*	*48,587,995*
Options	4,648,844	3,591,096	1,980,327	3,977,368	192,500	14,390,135
Purchases	*3,114,287*	*1,374,666*	*1,125,559*	*2,640,637*	-	*8,255,149*
Sales	*1,534,557*	*2,216,430*	*854,768*	*1,336,731*	*192,500*	*6,134,986*
Foreign currency futures	3,730	7,096	16,015	37,758	-	64,599
Purchases	-	-	-	*37,758*	-	*37,758*
Sales	*3,730*	*7,096*	*16,015*	-	-	*26,841*
Subtotal Purchases	48,248,940	15,001,333	9,762,688	6,364,120	12,029,488	91,406,569
Subtotal Sales	32,833,448	13,160,505	9,342,990	7,736,329	15,745,107	78,818,379
Total of Transactions	81,082,388	28,161,838	19,105,678	14,100,449	27,774,595	170,224,948

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

31 Financial risk management disclosures

This section provides details of the Bank and its subsidiaries' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its subsidiaries are exposed, are credit risk, liquidity risk, market risk and operational risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 31.2 contains risk management information related to the trading portfolio and section 31.3 deals with the non-trading portfolio.

Risk management framework

The Bank's risk management strategy is to ensure that risk management culture is recognised and risk management principles are widely embraced throughout the Bank and its subsidiaries, an integrated risk management system is established which determines the risk level consistent with risk appetite approved by the Board of Directors, compliant with legislation, bank strategy and policies, and pursues risk-return-capital relationship. Essential principles are adopted in order to ensure that policies determined to assess and manage risks the Bank is exposed to, are kept updated, adapted to changing conditions, applied and managed.

It is the ultimate responsibility of the senior management to apply and improve risk management strategies, policies and procedures that are approved by the Board of Directors, inform the Board of Directors about the important risks the Bank is exposed to, assess internal control, internal audit and risk reports with regard to the Bank's departments and to eliminate the risks, deficiencies or defects identified in these departments or to take the necessary precautionary actions to prevent those risks, deficiencies and defects and participate in the determination of risk limits. Policies and procedures regarding risk management are established for consolidated subsidiaries. Policies and procedures are prepared in compliance with applicable legislations that the subsidiary subject to and the Bank's risk management strategy, reviewed regularly and revised if necessary. The Bank ensures that risk management system is applied in subsidiaries where risks are defined, measured, monitored and controlled. Risk management activities are structured under the responsibility of the Board of Directors. The Risk Committee composed of the members of the Board is responsible to oversee the Bank's risk management policies and practices, including the alignment with its strategic objectives and management's ability to assess and manage the various risks present in its activities including capital adequacy and planning and liquidity adequacy, as well as all other risk management functions envisioned under the applicable laws and regulations. Upper level management is responsible against the Board of Directors for the monitoring and management of risks that their departments are exposed to. Accordingly, the Risk Management, which performs risk management functions, reports to the Board of Directors via Risk Committee, whereas Internal Audit Department, performing internal audit functions, Internal Control Unit, performing internal control functions, and Compliance Department, which implements compliance controls and performs activities to prevent laundering proceeds of crime, and financing of terrorism, report directly to the Board of Directors.

The Bank's main approach for the implementation of risk management model is establishing risk culture throughout the Bank, and aims that the importance of risk management for maintaining business operations is understood and risk awareness and sensitivity is ensured for decision making and implementation mechanisms process by all employees. The Bank measures and monitors risks that exposed to, considering methods suitable with international standards, compliant with legislation. Risk measuring and reporting are performed via advanced methods and risk management software. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, periodic and nonperiodic reports are prepared for Board of Directors, relevant committees and senior management. The Bank's risk appetite framework determines the risk level that the Board of Directors is prepared to accept in order to accomplish the goals and strategies with due consideration to the capacity of the institution to safely absorb those risks and the Bank monitors regularly risk appetite metrics regarding capital, liquidity, income recurrence

31 Financial risk management disclosures (continued)

and risk based limits. Risks that the Bank is exposed is managed by providing effective control environment and monitoring limits. Unmitigated risks are either accepted with current risk levels or decreasing/terminating the activity that causes the risk. The Risk Management function conducts the implementation of internal capital adequacy assessment process (ICAAP) report, to be sent to the BRSA by coordinating relevant parties. Stress test report is reported to the BRSA, which evaluates how adverse effects on macroeconomic parameters, in the scope of determined scenarios, affect the Bank’s three year budget plan and results, and certain ratios, including capital adequacy.

Training programs for employees, risk reports to the Board of Directors, senior management and committees, risk appetite framework established by the Bank and internal capital adequacy assessment process generate significant inputs to ensure that risk management culture is widely embraced.

Risk Committee

The Risk Committee is responsible for:

- Monitor and oversee the strategy and general risk policies of the Bank and to review the risk appetite declaration and core metrics, risk tolerance levels, limit structure, and metrics, taking into consideration the strength of the Bank's capital and the overall quality of risk management, measurement and reporting,
- Review and approve, as appropriate, the corporate risk policies for each risk type, and the yearly limits for each risk type and business area with the level of detail that may be deemed appropriate at the time,
- Review and approve, as appropriate, measures to mitigate the impact of identified risk, should these materialize,
- Monitor the evolution of the global risk profile and the Bank's risk exposure, by type of risk, business line, product, or customer segment, and how these compare to the risk strategy and policies and the risk appetite,
- Assess the adequacy of the risk information and risk internal control systems in the Bank to guarantee the appropriate functioning of risk management as well as the suitability of the structure and working of risk management in the Bank,
- Monitor that pricing of investment and deposit products offered to clients fully take into consideration the business model and risk strategy of the Bank, including a remediation plan should it be necessary,
- Verify that the Bank takes the necessary steps to guarantee the availability of systems, staffing and general resources adequate for the management of risks,
- Analyse and assess the appropriate working of asset valuation, asset classification and risk estimation of the company,
- Promote the continuous development and improvement of advanced risk management model and practices, whilst closely monitoring requirements and recommendations of regulators and supervisors,
- Receive and review reports on capital planning, capital adequacy and provide effective challenge of the enterprise risk management and capital planning processes.

Audit Committee

The audit committee consists of three members of the Board of Directors who do not have any executive functions. The audit committee, which was established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

31 Financial risk management disclosures (continued)

- Monitoring the effectiveness and adequacy of the Bank's internal control, risk management and internal audit systems, operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information;
- Performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities;
- Ensuring that the internal audit functions of consolidated organizations are performed in a consolidated and coordinated manner.

Other Committees

There are a number of risk management committees established in order to conduct risk management activities, including: Risk Management Committee, New Business and Product Committee, Risk Technology and Analytics Committee, IT Risk Committee, Retail Credit Risk Committee and Wholesale Credit Risk Committee.

31.1 Derivative financial instruments

The Bank and its subsidiaries enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 30. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

Swaps

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its subsidiaries are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

Futures and forwards

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are clearing houses. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange, bond, equity index, interest rate options, not only vanilla options but also exotic options.

31 Financial risk management disclosures (continued)

Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

31.2 Trading activities

The Bank and its subsidiaries maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its subsidiaries to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income/expense. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

Counterparty credit risk

The Bank and its subsidiaries' counterparty credit exposure at the date of the statement of financial position from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its subsidiaries deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

Market risk

Market Risk is defined as the losses that the trading portfolio of the Bank may incur due to the risks caused by market price changes (interest rate, equities, foreign exchange and commodity prices), the correlations between market prices and the uncertainty in the volatility levels.

All trading instruments are subject to market risk. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income/expense.

The Bank and its subsidiaries manage its use of trading instruments in response to changing market conditions.

The Board of Directors monitors the effectiveness of risk management systems through audit committee, related other committees and top management, and in the light of various risk reports and the assessments made by the audit committee.

The risk policies and application procedures have been approved by the Board of Directors and regularly revisited. The market risk is also managed by risk mitigations through hedging transactions beside measuring the risks in compliance with the international standards, limiting such risk and allocating capital accordingly.

31 Financial risk management disclosures (continued)

Market risks arising from trading portfolios are measured by the Bank as per “standard” and “value at risk (VaR)” methods. The measurements as per the standard method are performed on a monthly basis, and taken into consideration in the calculation of capital adequacy. Whereas, the measurements as per VaR method are performed on a daily basis. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting. In the VaR calculation, two years historical market data set is used, and 99% confidence interval and one-day holding period (10 days for regulatory capital calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. Beside the VaR limit, sensitivity limits on risk factors, economic capital and stop-loss limits approved by the Board of Directors for trading portfolio are also applied in order to limit the market risks.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” as set out by the BRSA and reported monthly on a bank-only basis and quarterly on a consolidated basis.

31.3 Non-trading activities

Below is a discussion of the various risks the Bank and its subsidiaries are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

Liquidity risk

Liquidity risk is defined as the risk that the Bank may not be able to fulfill its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank and its subsidiaries.

Liquidity risk is managed by Asset and Liability Management Department (ALMD) and Asset and Liability Committee (ALCO) in line with liquidity and funding policies and risk appetite approved by the Board of Directors in order to take the necessary measures in a timely and correct manner against possible liquidity shortages that may result from market conditions and balance sheet structure. Under stressed conditions, liquidity risk is managed within the contingency funding plan framework.

The Board of Directors reviews the liquidity risk management policy and approves the liquidity and funding policies, ensures the effectiveness of practice of policies and integrations with the Bank’s risk management system. The Board of Directors determines the basic metrics in liquidity risk measurement and monitoring. The Board of Directors establishes risk appetite of the Bank in liquidity risk management and identifies the risk limits in accordance with the risk appetite and reviews it regularly.

ALCO takes necessary decisions which will be executed by related departments by assessing the liquidity risk that the Bank is exposed to and considering the Bank’s strategy and conditions of competition and pursues the implementations.

ALMD, performs daily liquidity management by ensuring compliance with regulatory and internal liquidity limits and monitoring related early warning indicators in case of probable liquidity squeezes. The medium and long term liquidity and funding management is performed by ALMD in accordance with ALCO decisions.

Head of Risk Management defines the Bank’s liquidity risk, measures and monitors the risks with liquidity risk measurement methods that are in compliance with international standards, presents measurement results periodically to related departments, committees and senior management. Market and Structural Risk Department coordinates related parties in order to ensure compliance of risk management process in accordance with the Bank’s risk profile, operation environment and strategic

31 Financial risk management disclosures (continued)

plan with regulations. Market and Structural Risk Department analyses, develops and revises relevant liquidity risk measurement in accordance with changing market conditions and the Bank's structure. Market and Structural Risk Department reviews assumptions and parameters used in liquidity risk analysis.

The liquidity risk analysis and the important liquidity indicators are reported monthly to related senior management. Additionally, analysis and monitored internal ratios related to liquidity risk are presented in ALCO report. Internal liquidity metrics are monitored with limit and alert levels approved by the Board of Directors and reported regularly to related parties.

Decentralized management approach is adopted in liquidity management. Each subsidiary controlled by the Bank performs daily, medium and long term liquidity management independently from the Bank by the authorities in each subsidiary responsible for managing liquidity risk. In addition, within the scope of consolidated risk management, liquidity and funding risk of each subsidiary in control are monitored via the liquidity risk management methods identified by the Bank by considering the operations, risk profile and regulations of the related subsidiary.

The Bank's funding management is carried out in compliance with the ALCO decisions. Funding and placement strategies are developed by assessing liquidity.

In liquidity risk management actions that will be taken and procedures are determined by considering normal economic conditions and stress conditions.

Diversification of assets and liabilities is assured so as to be able to continuously meet the obligations, also taking into account the relevant currencies. Funding sources are monitored actively during identification of concentration risk related to funding. The Bank's funding base of customer deposits, interbank and other borrowing transactions are diversified in order to prevent the concentration of a particular funding source. Factors that could trigger the sudden and significant run off in funds or impair the accessibility of the funding sources are analyzed. Additionally, securities which are eligible as collateral at CBRT issued by Republic of Turkey Treasury and have active secondary market are comprised in the Bank's assets.

In the context of TL and foreign currencies liquidity management, the cash flows regarding assets and liabilities are monitored and the required liquidity in future periods is forecasted. In cash flow analysis, stress is applied to items that affect the liquidity by volume and rate of change from a liquidity management point of view.

Liquidity risk exposed by the Bank is managed by establishing risk appetite, risk mitigation according to the liquidity and funding policies (diversification of funding sources, holding high quality liquid assets reserve) and effective control environment and closely monitoring by limits. For those risks that cannot be reduced, the adoption of the current level of risk, reduction or termination of the activities that cause the risk is considered.

In liquidity risk stress testing framework, the level of the Bank's ability to cover cash outflows in liquidity crisis scenario based on the Bank's current cash flow structure, by high quality liquid assets is calculated. Scenario analysis are performed by assessing changing balance sheet structure, liquidity requirements and market conditions.

The results of liquidity risk stress testing are taken into consideration in the assessment of liquidity adequacy and identification of policy regarding liquidity risk and contingency funding plan is prepared within this framework.

There exists "Liquidity Contingency Plan" in the Bank including mechanisms to prevent increase in liquidity risk scenarios for different conditions and levels. Available liquidity sources are determined by considering the liquidity squeezes. Within the framework of this plan, the Bank monitors liquidity risk in terms of early warning indicators, and probable scenarios where liquidity risk crisis and possible actions that can be taken.

31 Financial risk management disclosures (continued)

The table below presents the last three months' consolidated liquidity ratios in accordance with the BRSA regulations:

Period	TL+FC	FC
30 April 2018	150.85%	160.14%
31 May 2018	146.85%	158.68%
30 June 2018	149.60%	161.73%

Exposure to liquidity risk

Liquidity Coverage Ratio (LCR), aims for the banks having the ability to cover 30 days of liquidity needs with their own cash and high quality liquid assets that are easy to convert to cash during liquidity shortages in the markets. With that perspective and according to "Regulation for Banks' Liquidity Coverage Ratio Calculations" terms LCR ratio is calculated by having high quality liquid assets divided by net cash outflows. After a transition period that will end by 1 January 2019, in both bank-only and consolidated basis, LCR ratio should be at least 80% for foreign currency and 100% for total.

The Bank's banking subsidiaries in the Netherlands is subject to liquidity coverage ratio requirements as per the rules of Capital Requirement Regulation. In addition, the Dutch Central Bank applies a national liquidity regulation, where the bank is required to have a positive liquidity gap in stress test scenario.

The Bank's banking subsidiary in Romania calculates two different liquidity ratios as follows:

- In accordance with national regulation, as a ratio of effective liquidity in local currency equivalent to necessary liquidity in local currency equivalent for several individual time buckets (<1 month, 1-3 months, 3-6 months, 6-12 months, >1 year) and each ratio for each bucket should be >1.
- In accordance with Basel II requirements, the liquidity coverage ratio (LCR) as a ratio of highly liquid assets necessary to meet short-term obligations which should be above 100% starting from 1 January 2018.

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	30 June 2018							
	Demand Accounts	***Up to 1 month***	***1 to 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 year***	***Undistributed(*)***	***Total***
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	3,921,941	-	-	-	-	-	(1,657)	3,920,284
Financial assets at fair value through profit or loss	68,391	7,020	1,003	10,514	141,477	142,016	-	370,421
Derivative financial assets	-	1,966,192	874,984	925,319	879,441	242,544	-	4,888,480
Loans and advances to banks	6,807	1,301,843	229,520	451,007	2,654	-	(1,291)	1,990,540
Loans and advances to customers	270,291	33,826,441	16,685,624	39,988,535	51,695,421	7,804,166	2,984,579	153,255,057
Investment securities	-	85,987	108,608	1,663,109	20,925,127	10,896,840	(8,701)	33,670,970
Deferred tax asset	-	-	-	-	-	-	1,458,021	1,458,021
Other assets	648,932	595,381	28,060	44,099	153,963	-	1,041,293	2,511,728
Total Turkish Lira monetary assets	4,916,362	37,782,864	17,927,799	43,082,583	73,798,083	19,085,566	5,472,244	202,065,501
Foreign Currency								
Cash and balances with central banks	5,273,273	-	-	-	-	-	(155)	5,273,118
Financial assets at fair value through profit or loss	97,600	-	-	156	76,254	25,555	-	199,565
Derivative financial assets	-	73,668	62,303	164,477	59,235	421,499	-	781,182
Loans and advances to banks	8,443,881	3,440,222	541,270	5,397,371	206,820	30,922	(12,777)	18,047,709
Loans and advances to customers	884,726	7,656,879	8,368,983	23,470,661	47,538,900	18,266,615	(176,699)	106,010,065
Investment securities	-	-	-	442,931	2,457,201	10,648,451	(3,602)	13,544,981
Deferred tax asset	-	-	-	-	-	-	25,987	25,987
Other assets	3,857,406	25,832,211	50,166	28,477	218,129	24,372	54,526	30,065,287
Total foreign currency monetary assets	18,556,886	37,002,980	9,022,722	29,504,073	50,556,539	29,417,414	(112,720)	173,947,894
Total Monetary Assets	23,473,248	74,785,844	26,950,521	72,586,656	124,354,622	48,502,980	5,359,524	376,013,395
MONETARY LIABILITIES								
Turkish Lira								
Deposits	23,219,935	58,118,686	11,106,680	3,883,042	18,675	14	-	96,347,032
Loans and advances from banks and other institutions	-	215,510	181,836	599,156	765,952	-	-	1,762,454
Obligations under repurchase agreements and money market fundings	-	6,140,891	122,397	25,643	-	-	-	6,288,931
Debt securities issued	-	1,662,454	2,798,278	591,325	1,079,322	861,847	-	6,993,226
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	1,817,826	727,015	1,475,746	187,304	184	-	4,208,075
Subordinated liabilities	-	-	-	-	-	-	-	-
Other liabilities, accrued expenses and provisions	451,891	10,953,266	634,421	192,677	2,648	502	3,004,135	15,239,540
Total Turkish Lira monetary liabilities	23,671,826	78,908,633	15,570,627	6,767,589	2,053,901	862,547	3,004,135	130,839,258
Foreign Currency								
Deposits	42,467,331	59,361,504	13,843,983	14,902,982	2,718,438	20,917	-	133,315,155
Loans and advances from banks and other institutions	-	1,291,632	1,286,159	23,615,827	11,185,943	426,914	-	37,806,475
Obligations under repurchase agreements and money market fundings	122	136,541	-	-	692,523	62,540	-	891,726
Debt securities issued	-	126,484	-	1,067,418	16,620,069	2,521,518	-	20,335,489
Financial liabilities at fair value through profit or loss	-	-	-	41,433	3,571,216	6,299,453	-	9,912,102
Derivative financial liabilities	-	24,661	275,215	106,087	201,338	587,313	-	1,194,614
Subordinated liabilities	-	-	-	-	-	3,444,072	-	3,444,072
Other liabilities, accrued expenses and provisions	366,465	587,685	177,100	21,053	521	147	604,617	1,757,588
Total foreign currency monetary liabilities	42,833,918	61,528,507	15,582,457	39,754,800	34,990,048	13,362,874	604,617	208,657,221
Total Monetary Liabilities	66,505,744	140,437,140	31,153,084	46,522,389	37,043,949	14,225,421	3,608,752	339,496,479

(*) Includes expected credit losses.

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2017							
	Demand Accounts	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed*	*Total*
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	3,620,970	3,931,282	-	-	-	-	-	7,552,252
Financial assets at fair value through profit or loss	41,595	1,263	99,181	93,772	635,884	12,860	-	884,555
Derivative financial assets	-	611,249	511,299	375,157	520,770	58,934	-	2,077,409
Loans and advances to banks	10,900	286,790	47,831	790,310	899	-	-	1,136,730
Loans and advances to customers	143,056	32,556,687	14,445,449	35,355,238	47,020,856	8,026,922	(471,505)	137,076,703
Investment securities	41,568	604,854	1,195,262	1,906,383	19,130,596	12,244,639	-	35,123,302
Deferred tax asset	-	-	-	-	-	-	1,358,388	1,358,388
Other assets	566,632	612,733	24,531	26,948	104,849	-	887,072	2,222,765
Total Turkish Lira monetary assets	4,424,721	38,604,858	16,323,553	38,547,808	67,413,854	20,343,355	1,773,955	187,432,104
Foreign Currency								
Cash and balances with central banks	4,738,991	3,025,375	-	-	-	-	-	7,764,366
Financial assets at fair value through profit or loss	460,213	-	-	4,567	7,166	7,959	-	479,905
Derivative financial assets	11	-	40,032	147,308	-	353,095	-	540,446
Loans and advances to banks	5,883,863	2,194,402	328,711	1,031,177	4,143,943	19,227	-	13,601,323
Loans and advances to customers	504,162	6,792,206	6,249,300	23,356,023	41,732,510	16,144,031	1,339,270	96,117,502
Investment securities	73,544	-	-	574,179	4,166,332	10,495,410	-	15,309,465
Deferred tax asset	-	-	-	-	-	-	12,359	12,359
Other assets	2,798,903	20,338,337	5,743	21,369	55,811	20,710	38,360	23,279,233
Total foreign currency monetary assets	14,459,687	32,350,320	6,623,786	25,134,623	50,105,762	27,040,432	1,389,989	157,104,599
Total Monetary Assets	18,884,408	70,955,178	22,947,339	63,682,431	117,519,616	47,383,787	3,163,944	344,536,703
MONETARY LIABILITIES								
Turkish Lira								
Deposits	21,509,140	53,025,509	9,600,735	3,968,770	8,686	48	-	88,112,888
Loans and advances from banks and other institutions	-	549,212	183,382	374,128	520,175	-	-	1,626,897
Obligations under repurchase agreements and money market fundings	104	13,532,389	200,145	154,146	-	1	-	13,886,785
Debt securities issued	-	1,765,511	2,935,085	1,443,778	1,246,553	861,851	-	8,252,778
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	915,133	630,699	1,061,676	103,029	7,688	-	2,718,225
Subordinated liabilities	-	-	-	-	-	-	-	-
Other liabilities, accrued expenses and provisions	429,156	9,930,601	957,532	18,691	1,381	-	2,764,518	14,101,879
Total Turkish Lira monetary liabilities	21,938,400	79,718,355	14,507,578	7,021,189	1,879,824	869,588	2,764,518	128,699,452
Foreign Currency								
Deposits	32,763,930	51,925,325	11,673,051	14,572,324	1,608,652	23,248	-	112,566,530
Loans and advances from banks and other institutions	-	1,550,717	464,659	18,237,058	14,446,306	2,695,661	-	37,394,401
Obligations under repurchase agreements and money market fundings	-	4,081,798	28,820	-	588,770	51,683	-	4,751,071
Debt securities issued	-	88,075	37,899	771,254	9,575,883	2,123,359	-	12,596,470
Financial liabilities at fair value through profit or loss	-	3,827	-	34,983	3,636,070	5,696,322	-	9,371,202
Derivative financial liabilities	-	14,564	4,570	72,230	66,805	235,185	-	393,354
Subordinated liabilities	-	-	-	-	-	2,849,471	-	2,849,471
Other liabilities, accrued expenses and provisions	486,180	407,833	235,892	63,520	641	122	380,855	1,575,043
Total foreign currency monetary liabilities	33,250,110	58,072,139	12,444,891	33,751,369	29,923,127	13,675,051	380,855	181,497,542
Total Monetary Liabilities	55,188,510	137,790,494	26,952,469	40,772,558	31,802,951	14,544,639	3,145,373	310,196,994

31 Financial risk management disclosures (continued)

Contractual maturity analysis of liabilities according to remaining maturities

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its subsidiaries' financial liabilities as per their earliest likely contractual maturities.

	30 June 2018							
	Carrying Value	***Nominal Principal Outflows***	***Demand***	***Up to 1 Month***	***1 to 3 Months***	***3 to 12 Months***	***1 to 5 Years***	***Over 5 Years***
Deposits	229,662,187	228,443,186	65,674,143	116,911,068	24,663,583	18,447,296	2,726,359	20,737
Obligations under repurchase agreements and money market fundings	7,180,657	7,155,028	122	6,255,224	120,276	25,000	692,523	61,883
Loans and advances from banks and other institutions	39,568,929	39,273,743	-	1,362,112	1,414,043	24,173,963	11,950,434	373,191
Debt securities issued	27,328,715	26,820,940	-	1,769,218	2,783,336	1,636,366	17,293,080	3,338,940
Subordinated liabilities	3,444,072	3,422,775	-	-	-	-	-	3,422,775
Financial liabilities at fair value through profit or loss	9,912,102	9,763,406	-	-	-	39,409	3,534,020	6,189,977
Total Monetary Liabilities	317,096,662	314,879,078	65,674,265	126,297,622	28,981,238	44,322,034	36,196,416	13,407,503

	31 December 2017							
	Carrying Value	***Nominal Principal Outflows***	***Demand***	***Up to 1 Month***	***1 to 3 Months***	***3 to 12 Months***	***1 to 5 Years***	***Over 5 Years***
Deposits	200,679,418	199,811,654	54,272,688	104,483,680	21,128,917	18,296,961	1,606,260	23,148
Obligations under repurchase agreements and money market fundings	18,637,856	18,607,719	104	17,589,151	227,161	151,400	588,770	51,133
Loans and advances from banks and other institutions	39,021,298	38,814,769	-	1,951,289	619,040	18,581,214	14,967,925	2,695,301
Debt securities issued	20,849,248	20,449,537	-	1,844,478	2,944,884	2,164,317	10,564,893	2,930,965
Subordinated liabilities	2,849,471	2,831,850	-	-	-	-	-	2,831,850
Financial liabilities at fair value through profit or loss	9,371,202	9,265,663	-	3,827	-	33,499	3,613,345	5,614,992
Total Monetary Liabilities	291,408,493	289,781,192	54,272,792	125,872,425	24,920,002	39,227,391	31,341,193	14,147,389

Interest rate risk

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation techniques through limits and hedging.

The interest rate risk resulted from balance sheet maturity mismatch presents the possible losses that may arise due to the changes in interest rates of interest sensitive assets and liabilities in the on and off balance sheet. Interest rate sensitivity of assets, liabilities and off-balance sheet items is evaluated during the Weekly Assessment Committee and Asset and Liability Committee meetings taking into consideration the developments in market conditions.

The Bank's interest rate risk is measured by using economic value, economic capital, net interest income, earnings at risk, economic value sensitivity of securities portfolio, duration-gap and credit spread risk sensitivity analysis.

31 Financial risk management disclosures (continued)

The results are supported by sensitivity and scenario analysis performed periodically due to the possible instabilities in the markets. Furthermore, the interest rate risk is monitored according to the limits approved by the Board of Directors.

The interest rate risk on the interest-rate-sensitive financial instruments of trading portfolio is evaluated as a part of market risk.

The following table provides an analysis of interest rate sensivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	30 June 2018						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing(*)*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	6,146,112	-	-	-	-	3,047,290	9,193,402
Financial assets at fair value through profit or loss	19,257	5,669	10,288	198,998	163,568	172,206	569,986
Loans and advances to banks	7,172,368	1,788,803	2,631,520	268,792	21,539	8,155,227	20,038,249
Loans and advances to customers	60,529,248	31,938,198	78,494,598	71,567,004	14,015,299	2,720,775	259,265,122
Other assets	15,657,405	-	-	113,900	-	22,475,372	38,246,677
Investment securities	3,594,007	7,640,127	13,198,053	5,859,489	11,008,741	5,915,534	47,215,951
Deferred tax asset	-	-	-	-	-	1,484,008	1,484,008
Total Monetary Assets	93,118,397	41,372,797	94,334,459	78,008,183	25,209,147	43,970,412	376,013,395
MONETARY LIABILITIES							
Deposits	125,375,970	24,799,419	18,517,165	2,638,552	12,131	58,318,950	229,662,187
Obligations under repurchase agreements and money market fundings	6,255,224	120,276	25,000	692,523	61,883	25,751	7,180,657
Loans and advances from banks and other institutions	4,801,689	13,693,713	17,548,839	2,512,460	249,292	762,936	39,568,929
Debt securities issued	6,841,059	3,353,799	1,059,752	14,487,532	1,078,795	507,778	27,328,715
Subordinated liabilities	-	-	-	-	3,422,775	21,297	3,444,072
Financial liabilities at fair value through profit or loss	9,763,406	-	-	-	-	148,696	9,912,102
Other liabilities, accrued expenses and provisions	-	-	-	-	-	22,399,817	22,399,817
Total Monetary Liabilities	153,037,348	41,967,207	37,150,756	20,331,067	4,824,876	82,185,225	339,496,479

	31 December 2017						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	6,886,175	-	-	-	-	8,430,443	15,316,618
Financial assets at fair value through profit or loss	3,500	316,585	146,449	373,685	18,939	505,302	1,364,460
Loans and advances to banks	4,414,804	1,319,424	2,997,187	142,414	19,206	5,845,018	14,738,053
Loans and advances to customers	57,563,083	27,377,487	70,521,687	64,074,168	12,493,489	1,164,291	233,194,205
Other assets	10,826,145	1,017	-	21,530	-	17,271,161	28,119,853
Investment securities	3,787,187	8,473,381	13,498,785	7,317,528	11,265,386	6,090,500	50,432,767
Deferred tax asset	-	-	-	-	-	1,370,747	1,370,747
Total Monetary Assets	83,480,894	37,487,894	87,164,108	71,929,325	23,797,020	40,677,462	344,536,703
MONETARY LIABILITIES							
Deposits	112,185,433	21,141,993	18,362,977	1,527,939	15,910	47,445,166	200,679,418
Obligations under repurchase agreements and money market fundings	17,589,151	227,161	151,400	588,770	51,133	30,241	18,637,856
Loans and advances from banks and other institutions	10,261,658	9,797,978	12,132,052	6,233,808	479,088	116,714	39,021,298
Debt securities issued	1,848,737	3,084,589	2,058,112	10,527,135	2,930,964	399,711	20,849,248
Subordinated liabilities	-	-	-	-	2,831,850	17,621	2,849,471
Financial liabilities at fair value through profit or loss	9,265,664	-	-	-	-	105,538	9,371,202
Other liabilities, accrued expenses and provisions	-	-	-	-	-	18,788,501	18,788,501
Total Monetary Liabilities	151,150,643	34,251,721	32,704,541	18,877,652	6,308,945	66,903,492	310,196,994

(*) Includes expected credit losses.

31 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the first half of 2018 and the year 2017:

	30 June 2018			
	US$	*EUR*	*TL*	*Other Currencies*
	%	*%*	*%*	*%*
Assets				
Loans and advances to banks	1-6	1-4	1-23	-
Debt and other fixed or floating income instruments	3-12	1-5	3-17	2-5
Loans and advances to customers	2-19	1-11	1-38	1-31
Liabilities				
Deposits:				
- Foreign currency deposits	1-7	1-7	-	1-6
- Bank deposits	2-3	2	18	2-3
- Saving deposits	-	-	7-17	-
- Commercial deposits	-	-	9-17	-
- Public and other deposits	-	-	15	-
Obligations under repurchase agreements and money market fundings	2-3	1	12-20	-
Loans and advances from banks and other institutions	1-6	1-4	8-25	1-4
Debt securities issued	4-6	4-6	1-21	6

	31 December 2017			
	US$	*EUR*	*TL*	*Other Currencies*
	%	*%*	*%*	*%*
Assets				
Loans and advances to banks	1-4	(0.36)-2	1-18	1
Debt and other fixed or floating income instruments	2-12	1-5	4-16	-
Loans and advances to customers	1-11	1-11	1-30	1-31
Liabilities				
Deposits:				
- Foreign currency deposits	1-4	1-7	-	1-5
- Bank deposits	1-3	1-2	1-13	1-3
- Saving deposits	-	-	7-16	-
- Commercial deposits	-	-	9-14	-
- Public and other deposits	-	-	13	-
Obligations under repurchase agreements and money market fundings	1-3	-	10-15	-
Loans and advances from banks and other institutions	1-6	1-4	8-19	1-4
Debt securities issued	6	4	8-16	5

31 Financial risk management disclosures (continued)

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation through limits and hedging.

The interest rate sensitivity of assets, liabilities and off balance-sheet items are evaluated at the weekly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from banking book is established and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book and to consider the relevant repricing and maturity data.

Duration gaps, gaps by maturity buckets and sensitivity analysis are used in monitoring of repricing risk resulting from maturity mismatch. The duration gap and sensitivity analysis are carried out every two weeks period.

In the duration gap analysis, the present values of interest-rate-sensitive asset and liability items are calculated using yield curves developed from the market interest rates. In case of instruments with no maturities assigned, the maturity is determined as per interest rate fixing periods and customer behaviors. Such results are supported by sensitivity and scenario analysis applied periodically for possible instabilities in the markets.

The interest rate risk on the interest-rate-sensitive financial instruments of the trading portfolio is evaluated as part of the market risk.

Currency risk

Currency risk arises from the potential impact of adverse exchange rate fluctuations on the capital ratio and net profit, when the Bank has a significant activity in currencies other than the local currency of the balance sheet or when it holds exposure to protect its equity.

The Bank and its subsidiaries are exposed to currency risk through transactions in foreign currencies and through investments in foreign operations. The Bank and its subsidiaries' main foreign operations are in the Netherlands and Romania. The measurement currencies of its operations are Euro and Romanian Leu. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL. The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. FX swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved. The Bank and its subsidiaries' transactional exposures give rise to foreign currency gains and losses that are recognised in the consolidated statement of profit or loss and other comprehensive income. These exposures comprise of monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved.

31 Financial risk management disclosures (continued)

These exposures are as follows:

	30 June 2018			
	US$	EUR	Other Currencies	Total
Assets				
Cash and balances with central banks	19,060	4,108,263	1,145,795	5,273,118
Financial assets at fair value through profit or loss	109,808	89,757	-	199,565
Loans and advances to banks	10,043,635	7,186,032	818,042	18,047,709
Loans and advances to customers	51,703,176	48,697,019	5,609,870	106,010,065
Other assets	15,864,415	7,447,803	7,534,251	30,846,469
Investment securities	11,146,391	2,049,224	349,366	13,544,981
Equity investments	187,126	6,674	-	193,800
Tangible and intangible assets	289	164,833	152,960	318,082
Deferred tax asset	-	14,486	11,501	25,987
Total Assets	*89,073,900*	69,764,091	15,621,785	174,459,776
Liabilities				
Deposits	73,414,519	48,251,560	11,649,076	133,315,155
Obligations under repurchase agreements and money market fundings	199,080	692,524	122	891,726
Loans and advances from banks and other institutions	22,574,012	15,026,497	205,966	37,806,475
Debt securities issued	11,876,168	8,012,175	447,146	20,335,489
Financial liabilities at fair value through profit or loss	9,870,669	-	41,433	9,912,102
Subordinated liabilities	3,444,072	-	-	3,444,072
Current and deferred tax liability	-	15,065	1,777	16,842
Other liabilities, accrued expenses and provisions	1,796,560	897,309	241,491	2,935,360
Total Liabilities	*123,175,080*	*72,895,130*	*12,587,011*	*208,657,221*
Net Statement of Financial Position	*(34,101,180)*	*(3,131,039)*	*3,034,774*	*(34,197,445)*
Net Off Balance Sheet Position	*30,710,490*	*(410,713)*	*(1,532,802)*	*28,766,975*
Net Long/(Short) Position	*(3,390,690)*	*(3,541,752)*	*1,501,972*	*(5,430,470)*

	31 December 2017			
	US$	EUR	Other Currencies	Total
Total Assets	*77,202,063*	*66,724,044*	*13,559,666*	*157,485,773*
Total Liabilities	*115,081,958*	*55,373,549*	*11,042,035*	*181,497,542*
Net Statement of Financial Position	*(37,879,895)*	*11,350,495*	*2,517,631*	*(24,011,769)*
Net Off Balance Sheet Position	*37,114,158*	*(10,077,437)*	*(1,589,595)*	*25,447,126*
Net Long/(Short) Position	*(765,737)*	*1,273,058*	*928,036*	*1,435,357*

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies. The effective exchange rates at the balance sheet date announced by the Bank in TL are 4.5637 for US dollars and 5.3271 for Euro.

31 Financial risk management disclosures (continued)

The short positions in the consolidated statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its subsidiaries ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The potential impact of adverse exchange rate fluctuations on the capital adequacy ratio and foreign currency risk weighted assets are regularly monitored according to internal limits and reported.

Credit risk

The Bank and its subsidiaries are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

The Bank and its subsidiaries' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. The Bank operates a statistical-based internal risk rating model in which corporate, commercial and small-size customers are rated from 1 to 23 using the internal grades. Based on this model, while the grades from 1 to 9 represents "above average", 10 to 16 represents "average" and 17 to 23 represents "below average" performance. Risk rating is a requirement for loan applications, and ratings are used both to determine credit authorization limits and in credit assessment process.

The concentration table of the cash and non-cash loans for the Bank according to this model is presented below:

	30 June 2018 %	*31 December 2017 %*
Above Average	40	39
Average	47	48
Below Average	13	13
	100	100

Concentrations based on industries and groups are also monitored. Application scorecards are used during loan granting process for retail and credit card portfolios. Behavioral scorecards are also used for these portfolios.

The Bank and its subsidiaries are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its subsidiaries are exposed to off balance sheet credit risk through guarantees issued (Note 29).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its subsidiaries deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

31 Financial risk management disclosures (continued)

Impairment assessment based on IFRS 9

Definition of default, cure and reverse transfer logic
According to the default definition, an asset is considered as default, on objective default (more than 90 days past due) and subjective default (unlikely to pay) conditions. Therefore, the Group considers a financial instrument defaulted and therefore stage 3 (credit-impaired) on these two below conditions:

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank and its financial subsidiaries subject to consolidation is based on a more than 90 days past due definition. If a loan is exactly 90 days past due, it will not be considered as default. Default status starts on the 91st day.
2. Subjective Default Definition: It means it is considered that a debt is unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

In order for the restructured non-performing corporate and commercial loans to be classified to the watchlist category, the following conditions must be met:

- Recovery in debt service,
- At least one year should pass over the date of restructuring,
- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring /refinancing or the date when the debtor is classified as non-performing (earlier date to be considered) and fulfillment of the payment condition of all overdue amounts as of the date of restructuring /refinancing,
- Collection of all overdue amounts, disappearance of the reasons for classification as non-performing receivable (based on the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring / refinancing, if there is a new restructuring / refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again. The performing or non-performing retail loans being subject to restructuring shall be removed from the watchlist only if the debt is paid in full.

Corporate and commercial companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

- Subsequent to the thorough review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time)
- At least two years should pass over the date of restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring /refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring / refinancing

Besides, when the condition that triggers a transfer to Stage 2 is no longer met, the exposure shall be transferred to Stage 1. If the credit risk on financial instruments, for which lifetime expected credit losses have been recognised, subsequently improves so that the requirement for recognising lifetime expected credit losses is no longer met, the loss allowance shall be measured at an amount equal to 12-month expected credit losses with a resulting gain recognised in profit or loss.

31 Financial risk management disclosures (continued)

Assessment of the significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month expected credit losses or lifetime expected losses, the Group assesses both qualitatively and quantitatively whether there has been a significant increase in credit risk since initial recognition.

Qualitative assessment:

A financial asset is classified as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date,
- Loans classified as watchlist,
- When there is a change in the payment plan due to refinancing, restructuring or concession, the loan is not considered as default or written off and the change is not due to any commercial reason.

Quantitative assessment:

The quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date.

It is classified the related financial asset as Stage 2 (Significant Increase in Credit Risk) where both of the following criteria are satisfied as a result of quantitative assessment.

- Relative change in the PD: If the "relative difference" between the probability of defaults as of the reporting date and the date when the loan is initially recognised in the financial statements is above the specified threshold
- Absolute change in the PD: If the "absolute difference" between the probability of defaults as of the reporting date and the date when the loan is initially recognised in the financial statements is above the specified threshold (different from the threshold for the relative change)

Besides, for the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, it is grouped financial instruments on the basis of shared credit risk characteristics. In this context, the methodology developed for the estimation of expected credit losses should include the risk features which meet the criteria for carrying the same credit risk characteristics. Examples of the common credit risk characteristics include, but are not limited to, the following:

- Customer type (retail or corporate / commercial)
- Product type
- Credit risk rating notes /scores
- Sector / market segmentation
- Collateral type
- Loan to value ratio
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

31 Financial risk management disclosures (continued)

When measuring expected credit losses, it shall be considered the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low. Such assessment is made by reflecting the estimate of expected credit loss which is unbiased and probability-weighted determined by evaluating a range of possible outcomes.

Expected credit losses assessment is performed either on a collective basis or an individual basis. Collective assessment is applied for segments defined on the basis of similar risk characteristics. On the other hand, individual assessment is performed for loans that are individually significant and exhibit specific characteristics. Accordingly, certain portion of commercial and corporate loans is individually assessed. Calculations are performed by discounting the expected cash flows for the individual financial instrument to its present value using the effective interest rate. Future cash flows are determined based on two scenarios: going concern and gone concern scenarios. The choice of these scenarios depends on whether the customer is still operating and has operating cash flows that may be used to repay the debt, or whether the customer is not operating anymore and has collateral that may be used to pay the debt. In the estimation of credit losses individual assessment, on-balance/ off-balance positions and collateral valuations are taken into consideration in the calculations of the cash flows using expert opinion. For the prediction of forthcoming drawing from off-balance positions, the credit conversion factor is conservatively applied as 100%.

As of 30 June 2018, the breakdown of individually and collectively assessed expected credit losses for loans, factoring and financial lease receivables and non-cash loans is as follows:

	30 June 2018					
	Stage 1		*Stage 2*		*Stage 3*	
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*
Cash loans	402	973,907	3,421,530	742,719	2,146,729	3,202,390
Factoring receivables	-	8,089	-	2,931	90,809	38,825
Financial lease receivables	7,360	50,402	96,940	9,855	248,504	50,580
Non-cash loans	-	144,895	152,049	53,703	74,659	29,967
	7,762	1,177,293	3,670,519	809,208	2,560,701	3,321,762

As of 31 December 2017, the breakdown of individually and collectively assessed allowances for probable losses on loans, factoring and lease receivables and provision for non-cash loans is as follows:

	31 December 2017	
	Individual	*Collective*
Cash loans	4,945,107	4,087,307
Factoring receivables	75,553	-
Financial lease receivables	259,105	19,189
Non-cash loans	50,880	110,501
	5,330,645	4,216,997

The Bank's internal rating and model inputs

The Bank's Credit Risk Department classifies exposures based on internal rating models and scoring models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from rating agencies. These information sources together with the empirical default data, are used to determine the PDs, which are later adjusted for IFRS 9 expected credit loss calculations to incorporate forward

31 Financial risk management disclosures (continued)

looking information. Additionally, these information sources are also utilised for the IFRS 9 stage allocation.

In LGD calculations, the direct costs of the recovery process are included as a cash flow reducing the final recovery. Workout LGD approach is preferred as methodological approach and client level cycle is used in accordance to the default definition. Effective interest rate is used in discounting process.

The Bank and its subsidiaries offer credit card and overdraft products which gives ability to corporate and commercial customers demand repayment and cancel the undrawn commitment. Such products do not limit the period that entities are exposed to credit losses with the contractual notice. For this reason, it is calculated the expected credit losses for these products over a period of time reflecting the anticipation of customer behavior, the likelihood of default, and future risk mitigation procedures such as the reduction or removal of undrawn limits.

When determining the period over which it is expected to be exposed to credit risk, but for which expected credit losses would not be mitigated by normal credit risk management actions, it is considered factors such as historical information and experience about the below items:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that it is expected to be taken once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

Expected credit losses on the revolving products are calculated for retail and corporate customers by considering 3 to 5 years of expected lifetime.

The assessment of significant increase in credit risk for revolving loans is performed by considering qualitative and quantitative criteria as performed for other credit products which is explained in disclosure “Significant increase in credit risk”.

Forward-looking macroeconomic information
IFRS 9 indicates that forecasts of future economic conditions should be incorporated to expected credit losses estimates by considering a range of possible outcomes.

Accordingly, forward-looking macroeconomic information is incorporated into credit risk parameters during assessment of significant increase in credit risk and expected credit loss calculation. In order to include forward-looking information into the estimation of the risk parameters, econometric models are built. The incorporation of forward-looking information into the credit risk parameters consists of the following steps:

Step 1: It is made specifications and estimates of econometric models that reveal past relationships between credit risk parameters and macroeconomic variables in order to be able to generate estimates based on macroeconomic information. Macroeconomic variables prevailing during these estimates are the Gross Domestic Product (GDP), Unemployment Rate and Treasury Interest Rate for two years.

Step 2: Where macroeconomic scenarios do not include longer maturity, a process called “convergence to the mean” is applied.

Step 3: In order to estimate the ultimate parameters to be used in the calculation of the expected credit losses, the methods of credit risk parameters reflection and forward-looking impact inclusion into the parameters are applied.

31 Financial risk management disclosures (continued)

Low credit risk assumption

The credit risk on a financial instrument is considered as low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. It is not considered financial instruments to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the other financial instruments or relative to the credit risk of the jurisdiction within which it is operated.

If it is determined that a financial instrument has a low credit risk as of the reporting date, it is assumed that the credit risk on the financial instrument has not increased significantly following its first recognition in the financial statements.

It is defined the definition of low credit risk based on the definition of High Quality Liquid Asset given in the Regulation on the Liquidity Coverage Ratio Calculation and the principles of the risk weight calculation based on the external rating note of the receivables from the Central Banks and the Central Governments in accordance with the Regulation on the Measurement and Assessment of Banks' Capital Adequacy.

The financial instruments that are defined as having low credit risk based on IFRS 9 are as follows:

- Receivables from the Central Bank of the Republic of Turkey (required reserves, free reserves, placement, etc.)
- Loans with counterparty of Treasury of the Republic of Turkey,
- Receivables (reserves, free reserves, placements, etc.) from the central banks of the branches of the Bank or its subsidiaries, securities issued or guaranteed by these central banks and securities issued / guaranteed by the treasury of these countries,
- Loans granted to the treasury of countries having rating note of AA- and above and the securities issued or guaranteed by the treasury of these countries,
- Local currency loans granted to the treasury of countries having rating below AA-, and securities in local currency issued or guaranteed by the treasury of these countries,

Securities exported or guaranteed by multilateral development banks or international organizations having rating of AA- and above.

Sectoral and geographical concentration of impaired (Stage 3) loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location.

31 Financial risk management disclosures (continued)

An analysis of concentrations of non-performing (Stage 3) loans, factoring and financial lease receivables including accruals is presented below:

	30 June 2018	*31 December 2017*
Consumer loans	3,072,807	2,716,414
Transportation and logistics	1,081,818	715,891
Energy	851,449	243,213
Food	567,074	241,967
Construction	558,491	501,456
Textile	412,141	296,155
Service sector	364,442	313,090
Transportation vehicles and sub-industries	359,915	345,737
Agriculture and stockbreeding	228,455	178,000
Tourism	185,489	176,785
Metal and metal products	136,322	143,826
Durable consumption	121,356	105,017
Paper and paper products	109,955	92,981
Chemistry and chemical products	92,657	42,416
Others	1,008,634	752,348
Total non-performing loans, factoring and financial lease receivables	9,151,005	6,865,296

	30 June 2018	*31 December 2017*
Turkey	7,450,730	5,711,967
Malta	755,533	365,015
Romania	624,924	505,842
England	123,212	102,130
Switzerland	112,661	95,061
Cyprus	19,032	23,652
Others	64,913	61,629
Total non-performing loans, factoring and financial lease receivables	9,151,005	6,865,296

Write-off policy

The Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the Board of Directors.

Collateral policy

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its subsidiaries currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 30 June 2018 or 31 December 2017.

31 Financial risk management disclosures (continued)

As part of its statutory capital adequacy calculations, and as per the legislation revised accounting to the Basel II requirements and effective from 1 July 2012, the Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals in compliance with the relevant local legislation. In the credit risk mitigation, cash and cash equivalent items and high-credit-quality debt instruments are used. The volatility adjustments regarding the receivables, collaterals and currency mismatch of the collaterals are made as per the standard volatility-adjustment approach defined in the relevant regulation. In cases where there are maturity mismatches resulted from shorter remaining life of collateral than of receivables, the value of collateral is considered as the volatility-adjusted value.

The fair value of collateral held against non-performing (Stage 3) loans and receivables including accruals, is presented below, as per the collateral type, up to the outstanding total amount of exposures:

	30 June 2018	***31 December 2017***
Mortgages	2,183,728	1,871,727
Pledge assets	1,022,268	368,910
Promissory notes	410,164	389,672
Cash collateral	2,927	3,132
Unsecured	5,531,918	4,231,855
	9,151,005	6,865,296

The amounts reflected in the tables above represent the maximum accounting loss that would be recognised at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

Operational risks

The Bank accepts the definition of operational risk proposed by the Bank for International Settlements (BIS) and defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition excludes strategic or business risk and reputational risk.

The definition of operational risk (OR) includes the risk types: processes, external and internal fraud, technology, human resources, business practices, disasters, suppliers.

Operational risk is managed on the basis of the three lines of defense approach within the frame of risk management policies approved by the Board of Directors.

Currently, the value at operational risk is calculated according to the basic indicator approach as per the Article 25 of “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” as pronounced by the BRSA.

The annual gross income is defined as net interest income plus net non-interest income reduced by realized gains/losses from the sale of securities measured at FVOCI and amortised cost, non-recurring gains and income derived from insurance claims. The result is added to risk weighted assets in the capital adequacy calculation.

Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks.

31 Financial risk management disclosures (continued)

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

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, other comprehensive income, foreign currency translation reserve and non-controlling interests after deductions for goodwill and certain cost items.

- Tier 2 capital, which includes qualifying subordinated liabilities and general reserves.

The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier 1 and Common Equity Tier 1 (CET1) capital, respectively, to total value at credit, market and operational risks starting from 1 January 2014.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Communiqué on Credit Risk Mitigation Techniques" and "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published in the Official Gazette no.28337 dated 28 June 2012 which were replaced with regulations in the Official Gazette no.29111 dated 6 September 2014 and no.29511 dated 23 October 2015 and the "Regulation on Equities of Banks" published in the Official Gazette no.26333 dated 1 November 2006 which was replaced in the Official Gazette no.28756 dated 5 September 2013. The Bank's process of internal capital requirements is assessed under the regulation on the "Internal Systems and Internal Capital Adequacy Assessment Processes of Banks" published in the Official Gazette no. 29057 dated 11 July 2014. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

In the calculation of value at credit risk for on balance sheet items, non-cash loans and commitments are netted with specific provisions based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". Net amounts of non-cash loans and commitments are then multiplied by the rates stated in the Article 5 of the Regulation. Finally, exposures are reduced as per the "Communiqué on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the Article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

Value at credit risk for the derivative financial instruments and credit derivatives are calculated according to Current Exposure Method as defined in the Appendix-2 of the Regulation, reduced as per the "Communiqué on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the Article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the Article 5 of the Regulation, securities financing transactions (SFTs) and margin lending transactions are calculated according to "Communiqué on Credit Risk Mitigation Techniques".

31 Financial risk management disclosures (continued)

The Bank's and its subsidiaries' regulatory capital positions on consolidated basis are as follows:

	30 June 2018	***31 December 2017***
Tier 1 capital	43,538,067	40,806,228
Tier 2 capital	6,821,001	5,909,875
Deductions from capital	(18,162)	(30,879)
Total regulatory capital	50,340,906	46,685,224
Value at credit, market and operational risks	310,341,042	278,024,586
Capital ratios (%)		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	16.22	16.79
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	14.03	14.68

31.4 Hedging

Due to the Bank and its subsidiaries' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its subsidiaries from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its subsidiaries enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

From time to time, the Bank enters into various interest rate swap transactions in order to hedge its certain cash flow or fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments.

In this respect, the Bank applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of US$ 500,000,000, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face value amount and conditions. In June 2012, the Bank ceased to apply hedge accounting and accordingly fair value calculations for these bonds. The accumulated fair value differences incurred starting from the date of hedge accounting up to the date on which it was ceased, are amortised as per the effective interest-rate method in compliance with IFRS 9.

The Bank also applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 1,562,394 USD 812,679,502 and EUR 215,888,549 for its bonds with a total face value of TL 755,000 thousands and USD 487,500,000 and fixed-rate coupons by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, losses of TL 181,145 thousands and TL 134,138 thousands (30 June 2017: a gain of TL 15,765 thousands and a loss of TL 3,079 thousands) resulted from the related fair value calculations for the hedged loans and bonds were accounted for under net trading income/expense in the consolidated statement of profit or loss and other comprehensive income, respectively.

31 Financial risk management disclosures (continued)

In addition; the Bank also entered into cross currency swap agreements in order to hedge its fixed-rate bonds issued for a total principal value of RON 85,500,000 with the same face values and terms. Accordingly, in the current period, a gain of TL 29 thousands (30 June 2017: a loss of TL 10,762 thousands) resulted from the fair value changes of the securities issued and borrowings subject to hedge accounting were accounted for under net trading income/expense in the consolidated statement of profit or loss and other comprehensive income.

The Bank also enters into interest rate and cross currency swap agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the Bank applied cash flow hedge accounting for its borrowings amounting to USD 55,878,919 and EUR 31,578,947, securitization borrowings amounting to USD 14,583,333 and EUR 71,415,785 by designating cross currency swaps with the same face values and terms, and collateralized borrowings amounting to USD 250,000,000 and eurobonds with a total nominal value of USD 650,000,000, securitizations amounting to USD 730,243,904 and EUR 90,000,000 and deposits amounting to TL 150,000 thousands, USD 1,055,000,000 and EUR 350,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, gains of TL 73,792 thousands and TL 251,680 thousands (30 June 2017: TL 35,978 thousands and TL 15,499 thousands) resulting from cross currency and interest rate swap agreements were recognised under shareholders’ equity.

One of the Bank’s consolidated subsidiaries associated its contractual operational lease receivables (contractual future cash flows) denominated in EUR with its EUR denominated borrowings and other foreign currency borrowings converted to EUR currency through swap transactions and applied cash flow hedge accounting until 1 October 2017. The foreign currency exposures in operational lease receivables were hedged and accordingly the effective portion of foreign currency gains/losses of non-derivative hedging instruments designated for hedges of future cash flows were recognised directly in equity and any ineffective portion is recognised immediately in income until 1 October 2017. Effective from 1 October 2017, the subsidiary ceased the cash flow hedge regarding foreign currency exposure of its EUR denominated operational lease contracts and considered a fair value hedge relationship between such EUR denominated operational lease receivables and corresponding foreign currency borrowings. Accordingly, the subsequent cumulative change in the fair value of EUR denominated operational lease receivables (the firm commitment) attributable to the hedged risk is recognised as an asset with a corresponding gain recognised in profit or loss. As of 30 June 2018, while a negative amount of TL 126,519 thousands (net of deferred taxes) was recognised under shareholders’ equity as the hedge reserve (30 June 2017: TL 85,912 thousands), the unrecognised firm commitment fair value change was recognised as asset amounting to TL 126,142 thousands as a consequence of the new fair value hedge designation explained above. Besides, the subsidiary continued to apply cash flow hedge for its forecasted second hand vehicle sales same as previous year.

One of the Bank’s consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied fair value hedge accounting for fixed rate eurobonds with a total face value of USD 30,000,000 and EUR 65,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net loss of TL 5,930 thousands (30 June 2017: TL 3,069 thousands) resulting from the related fair value calculations for the hedged bonds were accounted for under net trading income/expense in the consolidated statement of profit or loss and other comprehensive income.

One of the Bank’s consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied cash flow hedge accounting for its borrowings amounting to USD 30,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net gain of TL 604 thousands (30 June 2017: TL 133 thousands) resulting from interest rate swap agreements were recognised under shareholders' equity.

31 Financial risk management disclosures (continued)

One of the Bank's consolidated subsidiaries enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the subsidiary applied cash flow hedge accounting for its loans granted in Turkish Lira by designating swaps with the same face value amount and similar terms; TL 1,486,205,273 thousands sell and EUR 274,173,081 buy, RON 135,000,000 sell and EUR 29,015,412 buy, USD 31,000,000 sell and EUR 24,812,518 buy. Accordingly, in the current period, a net loss of TL 5,585 thousands (30 June 2017: a net gain of TL 402 thousands) resulting from currency derivative contracts were recognised under shareholder's equity.

32 Subsidiaries, associates and structured entities

The table below sets out the consolidated subsidiaries, associates and structured entities of the Bank and its shareholding interests in these entities:

Consolidated entities	***30 June 2018***	***31 December 2017***
Garanti Bank International NV	100.00	100.00
Garanti Holding BV	100.00	100.00
Garanti Portföy Yönetimi AŞ	100.00	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ	100.00	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00	100.00
G Netherlands BV	100.00	100.00
Garanti Bank SA	100.00	100.00
Motoractive IFN SA	100.00	100.00
Ralfi IFN SA	100.00	100.00
Motoractive Multiservices SRL *(a)*	100.00	-
Garanti Kültür AŞ	100.00	100.00
Garanti Konut Finansmanı Danışmanlık Hiz. AŞ	100.00	100.00
Garanti Ödeme Sistemleri AŞ	99.96	99.96
Garanti Hizmet Yönetimi AŞ	100.00	100.00
Garanti Emeklilik ve Hayat AŞ	84.91	84.91
Garanti Faktoring AŞ	81.84	81.84
Garanti Yatırım Ortaklığı AŞ	3.30	3.30
Garanti Diversified Payment Rights Finance Company *(b)*	-	-
RPV Company *(b)*	-	-

(a) *Starting from 1 January 2018, the investment in Motoractive Multiservices SRL, previously accounted under equity investments, is consolidated in the accompanying consolidated financial statements on a line by line basis and the cumulative impact of TL 3,167 thousands is accounted in the current period's statement of changes in equity.*

(b) *Garanti Diversified Payment Rights Finance Company and RPV Company, are structured entities established for the Bank's securitization transactions, as explained in Note 18, and consolidated in the accompanying consolidated financial statements. The Bank or any of its subsidiaries do not have any shareholding interests in these companies.*

33 Net fees and commissions income

	Six-month period ended 30 June 2018	*Three-month period ended 30 June 2018*	*Six-month period ended 30 June 2017*	*Three-month period ended 30 June 2017*
Fees and commissions income:				
Credit cards fees	1,808,184	937,121	1,403,465	721,344
Commercial banking	310,732	141,256	164,742	82,395
SME banking	253,701	115,240	194,132	88,015
Retail banking	241,792	119,681	213,044	98,908
Brokerage activities related fees	152,928	66,832	125,372	62,348
Corporate banking	104,598	52,512	79,928	36,581
Insurance business fees	65,101	32,580	63,062	32,614
Others	191,440	105,119	131,277	71,823
Total fees and commissions income	3,128,476	1,570,341	2,375,022	1,194,028
Fees and commissions expense:				
Credit cards fees	628,601	341,785	483,797	253,850
Commercial banking	13,250	7,091	6,788	3,640
Retail banking	10,509	4,730	13,121	6,473
Insurance business fees	4,231	997	2,100	1,057
SME banking	630	235	2,096	1,084
Corporate banking	70	19	552	158
Others	60,443	33,190	60,326	25,306
Total fees and commissions expense	717,734	388,047	568,780	291,568
Net fees and commissions income	2,410,742	1,182,294	1,806,242	902,460

34 Net trading income/expense

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income/expense including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	Six-month period ended 30 June 2018	*Three-month period ended 30 June 2018*	*Six-month period ended 30 June 2017*	*Three-month period ended 30 June 2017*
Fixed/floating securities	736,183	517,957	(323,090)	(89,308)
Derivative transactions	1,242,266	391,839	(116,879)	(238,180)
Net trading income/expense	1,978,449	909,796	(439,969)	(327,488)

35 Other operating income

	Six-month period ended 30 June 2018	*Three-month period ended 30 June 2018*	*Six-month period ended 30 June 2017*	*Three-month period ended 30 June 2017*
Other operating income:				
Net sales from operational lease business(*)	83,176	40,815	40,711	15,869
Net sales from other non-financial subsidiaries	40,970	21,003	6,546	4,996
Net sales from Garanti Technology	22,217	11,381	19,633	9,640
Dividend income	5,189	4,369	7,338	7,226
Cheque booklet charge	4,939	2,462	4,748	2,527
Rent income from real estate (including investment property)	3,259	1,771	3,540	1,735
Others	36,221	22,286	53,405	29,357
Total operating income	195,971	104,087	135,921	71,350

(*) *Depreciation expenses of operational lease portfolio are netted-off with the net sales of operational lease business as shown below.*

35 Other operating income (continued)

	Six-month period ended 30 June 2018	*Three-month period ended 30 June 2018*	*Six-month period ended 30 June 2017*	*Three-month period ended 30 June 2017*
Net sales	*150,020*	*75,967*	*79,406*	*35,763*
Less: Depreciation	*(66,844)*	*(35,152)*	*(38,695)*	*(19,894)*
Net sales after depreciation	*83,176*	*40,815*	*40,711*	*15,869*

36 Other operating expenses

	Six-month period ended 30 June 2018	*Three-month period ended 30 June 2018*	*Six-month period ended 30 June 2017*	*Three-month period ended 30 June 2017*
Computer usage expenses	146,992	75,787	116,517	61,074
Saving deposits insurance fund	121,713	66,589	153,274	67,938
Advertising expenses	109,323	63,484	100,721	50,982
Utility expenses	64,228	30,676	56,447	27,092
Repair and maintenance expenses	37,450	20,055	30,428	20,000
Research and development expenses	29,983	12,138	25,578	16,184
Stationary expense	14,955	6,734	14,236	8,592
Others	337,156	150,976	284,161	140,173
	861,800	426,439	781,362	392,035

37 Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 31).

Key sources of estimation uncertainty

Allowances for credit losses

Current period

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

The following are the critical judgements that have the most significant effect on the amounts recognised in the accompanying consolidated financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are

37 Use of estimates and judgements (continued)

compensated. The Group monitors financial assets measured at amortised cost or FVOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase in credit risk: As explained in "significant accounting policies" in detail, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to "financial risk management disclosures" for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to "financial risk management disclosures" for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL.

Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See both "significant accounting policies" and "financial risk management disclosures" for more details on ECL and Note 28 for more details on fair value measurement.

Establishing the number and relative weightings of forward-looking scenarios and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 31 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to Note 28 for more details on fair value measurement. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Prior period

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 8.

37 Use of estimates and judgements (continued)

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

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of portfolio-basis assessed allowances relates to country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the specific allowances depends on the estimated future cash flows for specific counterparties and the assumptions and inputs to the impairment used in determining collective allowances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies section and Note 28. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

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

Financial asset and liability classification

The Bank and its subsidiaries' accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy *(h) Financial instruments*.
- In designating financial assets or liabilities at FVPL, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy *(h) Financial instruments*.
- In classifying financial assets as at amortised cost, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy *(h) Financial instruments*.

Securitizations

In applying its policies on securitized financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's consolidated statement of financial position.

37 Use of estimates and judgements (continued)

- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's consolidated statement of financial position.

Control over investments

As a bank, regardless of the nature of its involvement with an entity, is required to determine whether it is a parent by assessing whether it controls the entity, the Bank also reassesses whether or not it controls an investment when facts and circumstances indicate that there are changes to one or more of the following three elements of control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of its returns.

38 Significant event

As per the decision made at the annual general assembly of shareholders of the parent Bank on 29 March 2018, the distribution of the net profit of 2017, was as follows:

2017 PROFIT DISTRIBUTION TABLE	
2017 Net Profit	**6,343,920**
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	-
Undistributable funds	(1,150)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(306,696)
D – Second dividend to the shareholders	(1,540,000)
E – Extraordinary reserves	(4,132,074)
F – II. Legal reserve (Turkish Commercial Code 519/2)	(154,000)

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