Türkiye İhracat Kredi Bankası Anonim Şirketi

Interim Financial Statements
As At and For The Interim Period Ended
30 June 2018

7 December 2018

This report contains the "Independent Auditors' Report on Review of Interim Financial Statements" comprising 2 pages and; the "Financial statements and their explanatory notes" comprising 74 pages.

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Board of Directors of Türkiye İhracat Kredi Bankası AŞ

Introduction

We have reviewed the accompanying statement of financial position of Türkiye İhracat Kredi Bankası AŞ ("the Bank") as at 30 June 2018, the statements of profit or loss, 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. Management is responsible for the preparation and fair presentation of these 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 this 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the financial position of the Bank as at 30 June 2018 and its financial performance and its cash flows for the six-month period then ended in accordance with IFRS including the requirements of IAS 34, "Interim Financial Reporting".

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Orhan Akova
Partner

7 December 2018
Istanbul, Turkey

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

	Notes	**30 June 2018**	**31 December 2017 (*)**
ASSETS			
Cash and due from banks	*6*	4,965,377	3,546,284
Financial assets measured at fair value through profit or loss	*7*	-	
Trading securities	*7*		11,710
Derivative financial instruments	*8*	16,646	15,553
Derivative assets held for risk management	*4*	372,191	133,606
Loans and advances to customers	*9*	95,186,575	80,253,617
Investment securities			
-Financial assets measured at fair value through other comprehensive income	*10*	23,245	
-Financial assets measured at amortized cost	*10*	287,277	
-Available-for-sale	*10*		30,318
-Held-to-maturity	*10*		180,461
Property and equipment	*11*	6,755	6,235
Intangible assets	*12*	6,497	6,053
Investment property	*13*	2,189	2,236
Other assets	*14*	1,229,273	1,056,117
Total assets		**102,096,025**	**85,242,190**
LIABILITIES			
Funds borrowed	*15*	78,529,223	67,400,266
Debt securities in issue	*15*	14,632,972	10,279,210
Interbank money market deposits	*15*	155,816	152,000
Other liabilities and provisions	*17*	1,064,189	1,044,075
Derivative financial instruments	*8*	43,508	384,351
Derivative liabilities held for risk management	*4*	525,789	188,286
Retirement benefit obligations	*18*	21,185	19,116
Total liabilities		**94,972,682**	**79,467,304**
EQUITY	*19*		
- Share capital		*6,350,000*	*4,800,000*
- Adjustment to share capital		*38,091*	*38,091*
Total paid in share capital		6,388,091	4,838,091
Legal reserves		379,260	349,896
Hedging reserves		31,743	(1,512)
Fair value reserves		14,081	21,154
Retained earnings		310,168	567,257
Total equity		**7,123,343**	**5,774,886**
Total liabilities and equity		**102,096,025**	**85,242,190**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

	Notes	**1 January - 30 June 2018**	**1 January - 30 June 2017(*)**
Interest income	*20*	1,390,427	973,276
Interest expense	*20*	(929,205)	(526,979)
Net interest income		**461,222**	**446,297**
Fee and commission income		15,639	10,591
Fee and commission expense		(17,270)	(9,307)
Net fee and commission income		**(1,631)**	**1,284**
Impairment losses on loans and advances, net	*9*	(56,892)	(35,883)
Foreign exchange (losses) / gain, net	*21*	(754,596)	445,687
Gains/(losses) on financial assets measured at fair value through profit or loss	*22*	720,915	
Gains/(losses) on financial instruments classified as held for trading, net	*22*		(523,479)
Other operating income	*23*	129,544	99,180
Operating profit before operating expenses		**498,562**	**433,086**
Operating expenses	*24*	(192,456)	(161,189)
Net profit for the period		**306,106**	**271,897**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

	1 January - 30 June 2018	1 January - 30 June 2017 (*)
Net profit for the period	**306,106**	**271,897**
Other comprehensive income	**-**	**-**
Items that will not be reclassified to profit or loss	**-**	**-**
Remeasurements of the defined benefit liability (asset)	-	-
Items that are or may be reclassified to profit or loss	**26,182**	**6,380**
Net change in fair values of financial assets measured at fair value through other comprehensive income	(7,073)	
Net change in fair values of available-for-sale financial assets		6,380
Cash flow hedges-effective portion of changes in fair value	33,255	-
Total comprehensive income for the period	**332,288**	**278,277**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

		Share capital								
	Notes	Share Capital	Adjustment to share capital	Total paid-in share capital	Legal reserves	Other reserves	Hedging reserves	Fair value reserves	Retained Earnings	Total equity
Balance at 1 January 2017		**3,700,000**	**812,518**	**4,512,518**	**328,050**	**22,743**	**(434)**	**11,960**	**326,700**	**5,201,537**
Profit for the period		-	-	-	-	-	-	-	271,897	271,897
Other comprehensive income for the period		-	-	-	-	-	(638)	7,018	-	6,380
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**(638)**	**7,018**	**271,897**	**278,277**
Dividends paid		-	-	-	-	-	-	-	(3,160)	(3,160)
Transfers to legal reserves		-	-	-	21,846	-	-	-	(21,846)	-
Balance at 30 June 2017 (**)		**3,700,000**	**812,518**	**4,512,518**	**349,896**	**22,743**	**(1,072)**	**18,978**	**573,591**	**5,476,654**
Balance at 1 January 2018 (Previously reported)	**19**	**4,800,000**	**38,091**	**4,838,091**	**349,896**	**-**	**(1,512)**	**21,154**	**567,257**	**5,774,886**
Impact of adopting IFRS 9 at January 2018 (*)		-	-	-	-	-	-	-	20,432	20,432
Restated balance at 1 January 2018		**4,800,000**	**38,091**	**4,838,091**	**349,896**	**-**	**(1,512)**	**21,154**	**587,689**	**5,795,318**
Profit for the period		-	-	-	-	-	-	-	306,106	306,106
Other comprehensive income for the period		-	-	-	-	-	33,255	(7,073)	-	26,182
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**33,255**	**(7,073)**	**306,106**	**332,288**
Capital increase	19	1,550,000	-	1,550,000	-	-	-	-	(550,000)	1,000,000
Dividends paid		-	-	-	-	-	-	-	(4,263)	(4,263)
Transfers to legal reserves		-	-	-	29,364	-	-	-	(29,364)	-
Balance at 30 June 2018	**19**	**6,350,000**	**38,091**	**6,388,091**	**379,260**	**-**	**31,743**	**14,081**	**310,168**	**7,123,343**

(*) See Note 3.23.

(**) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

	Notes	1 January - 30 June 2018	1 January - 30 June 2017
Cash flows from operating activities:			
Net profit for the period		306,106	271,897
Adjustments for:			
Depreciation and amortisation	24	2,116	2,740
Provision for loan losses	9	56,892	35,883
Provision for employment termination benefits	18	2,069	1,801
Provision for unused vacation	17	2,964	904
Interest income, net		(461,222)	(446,297)
Interest paid		(583,371)	(526,979)
Interest received		1,352,770	939,572
Unrealised foreign exchange differences		345,966	(436,398)
Remeasurement of derivative financial instruments		236,338	(226,983)
		1,260,628	**(383,860)**
Net increase in loans and advances to customers		(1,307,365)	(4,565,259)
Net decrease in financial assets at measured fair value through profit or loss		3,050	
Net decrease in trading securities			3,042
Net (increase)/decrease in due from banks		-	(257,914)
Proceeds from borrowings		55,099,554	38,148,572
Repayments of borrowings		(56,738,705)	(36,693,065)
Net decrease/(increase) in other assets		(225,938)	1,746,772
Net increase in other liabilities		546,291	2,088,881
Net cash from/(used in) operating activities		**(1,362,485)**	**87,169**
Cash flows from/(used in) investing activities:			
Purchases of property and equipment	11	(1,870)	(874)
Purchases of investment securities	10	(144,311)	(198,999)
Redemption of investment securities	10	52,198	54,895
Purchases of intangible assets	12	(1,073)	(1,360)
Net cash generated from investing activities		**(95,056)**	**(146,338)**
Cash flows from/(used in) financing activities:			
Proceeds from interbank money market deposit	15	3,816	91,000
Proceeds from issuance of debt securities (acquisition)		2,384,011	-
Proceeds from issuance of debt securities (sale)		(242,020)	(245,775)
Dividends paid	19	(4,263)	(3,160)
Net cash from/(used in) financing activities		**2,141,544**	**(157,935)**
Effects of exchange-rate changes on cash and cash equivalents		735,090	150,544
Net increase/(decrease) in cash and cash equivalents		**1,419,093**	**(66,560)**
Cash and cash equivalents at the beginning of the year		3,546,284	3,257,199
Cash and cash equivalents at the end of the period		**4,965,377**	**3,190,639**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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

1 GENERAL INFORMATION

Türkiye İhracat Kredi Bankası AŞ (the "Bank" or "Eximbank") was established as Turkey's "Official Export Credit Agency" on 25 March 1987 (transformed from "State Investment Bank") as a development and investment bank and accordingly, the Bank does not accept deposits. The Bank's head office is located at Saray Mahallesi, Ahmet Tevfik İleri Caddesi 19 Ümraniye İstanbul/Türkiye. As of 30 June 2018, the Bank has 2 regional directorates in Ankara and in İzmir, 10 branches and 10 liaison offices. As of 30 June 2018, the Bank has 689 employees (31 December 2017: 635 employees).

The Bank has been mandated to support foreign trade through diversification of the exported goods and services, by increasing the share of exporters and entrepreneurs in international trade, and to create new markets for the exported commodities, to provide exporters and overseas contractors with support to increase their competitiveness and to ensure a lower risk environment in international markets.

As a means of aiding export development services, the Bank provides loan, guarantee and insurance services in order to financially support export and foreign currency earning services. While performing the above mentioned operations, the Bank provides short, medium or long term, domestic and foreign currency lending funded by borrowings from domestic and foreign money and capital markets and from its own sources.

On the other hand, the Bank also performs fund management (treasury) operations related to its core banking operations. These operations are domestic and foreign currency capital market operations, domestic and foreign currency money market operations, foreign currency market operations, derivative transactions, all of which are approved by the Board of Directors.

The losses due to the political risks arising on loan, guarantee and insurance operations of the Bank, are transferred to the Undersecretariat of Treasury ("Turkish Treasury") according to article 4/c of Act number 3332 that was appended by Act numbered 3659 and according to Act regarding the Public Financing and Debt Management, numbered 4749, dated 28 March 2002.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

The Bank maintains its books of account and prepares its statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Turkish Commercial Code, and the Turkish Tax Legislation.

The financial statements of the Bank as at 30 June 2018 are authorised for issue by the management on 7 December 2018. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following assets and liabilities which are stated at their fair values if reliable measures are available: derivative financial assets and liabilities, financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income.

2.3 Functional currency and presentation currency

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

2.4 Accounting in hyperinflationary countries

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

2.5 Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, 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 estimate is revised and in any future periods affected.

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 3 and 4 – Derivative assets and liabilities held for risk management
- Note 3 and 8 – Derivative financial instruments
- Note 3 and 9 – Loans and advances to customers
- Note 3 and 17 – Other liabilities and provisions

2 Basis of preparation *(continued)*

2.6. Changes in accounting policies

The accounting policies set out below have been applied consistently by the Bank to prior periods presented in these financial statements except for the impact of transition to IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contract with Customers" as of 1 January 2018 as explained below.

In accordance with the transition rules of IFRS 9, the prior period financial statements and notes are not restated. Accounting policies and valuation principles used for the year 2018 and 2017 periods are separately presented in the footnotes.

IFRS 15 provides single and comprehensive model and guidance regarding recognition of revenue and replaces IAS 18 "Revenue". The standard is in effect starting from 1 January 2018 and does not have significant impact on the accompanying financial statements.

The Bank's adoption process continues regarding IFRS 16 "Leases" which will be in effect starting from 1 January 2019.

The accounting policies adopted in the preparation of the financial statements as at 30 June 2018 are consistent with those followed in the preparation of the financial statements of the prior year, except for the new standards and amendments to standards, including any consequential amendments to other standards summarized in related notes.

Standards issued but not yet effective and not early adopted

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

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 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

2 *Basis of preparation (continued)*

2.6 Changes in accounting policies *(continued)*

Annual Improvements to IFRSs 2015-2017 Cycle

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle for applicable standards. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Bank does not expect that application of these improvements to IFRSs will have significant impact on its financial statements.

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

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

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of these amendments to IAS 28.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

2 Basis of preparation (continued)

2.6 Changes in accounting policies *(continued)*

Amendments to IFRS 9 - Prepayment Features With Negative Compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 9.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 19.

3 Significant accounting policies

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

3.1 Foreign currency

i) Foreign currency transactions

Transactions are recorded in TL, which represents the Bank's functional currency. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss and other comprehensive income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Bank for foreign currency translation are as follows:

	EUR / TL	USD / TL
30 June 2018	5.2969	4.5580
31 December 2017	4.5138	3.7750

ii) Foreign operations

The assets and liabilities are translated into presentation currency of the Bank at the rate of exchange ruling at the reporting date.

3 Significant accounting policies *(continued)*

3.2 Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for financial assets measured at fair value through other comprehensive income calculated on an effective interest basis,

3.3 Fees and commission and premium income and expense

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are provided. 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 relate mainly to transaction and service fees, which are expensed as the services are received.

Premium income and expense

Insurance programs of the Bank are composed of two schemes: short-term export credit insurance and medium and long-term export credit insurance. Premium income of the Bank under these two schemes represents premiums on policies written during the year, net of cancellations.

In addition, since commencement of the insurance facility, the Bank has sought to reinsure the major portion (currently 70%) of its underwritten short-term commercial risks on the basis of a quota-share treaty concluded with a group of domestic and overseas reinsurance companies. Accordingly, expenses include the premiums paid to reinsurance companies.

Premium income and expense representing reinsurer's share of the premium are recognised in the financial statements on accrual basis over the period of related policy.

Reinsurance commissions

Reinsurance commission income received in relation to ceded premiums is recognised on an accrual basis.

3.4 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of financial assets measured at fair value through other comprehensive income.

3.5 Dividends

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

3 Significant accounting policies *(continued)*

3.6 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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

3.7 Income tax expense

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3rd Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states "The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520", the exemption from Corporation Tax continues. Accordingly, current tax and deferred tax are not recognised in these financial statements.

3.8 Explanations on forward transactions, options and derivative instruments

Accounting policies applied as of 1 January 2018

The Bank uses derivative financial instruments in order to avoid exposure to foreign currency and interest rate risks.

As of the balance sheet date, there are outstanding currency and interest rate swap purchase and sales contracts and forward transactions in TL and foreign currency.

Derivatives are initially recorded with their fair values and related transaction costs as of the contract date are recorded in profit or loss. The following periods of initial reporting, they are measured at their fair values. The result of this assessment, offsetting debit and credits stemming from each contract debit and credits are reflected to the financial statements as a contract-based single asset and liability. The method of accounting gain or loss changes according to related derivative transaction whether to be held for cash flow hedges or not and to the content of hedge account.

a.) Financial assets measured at fair value through profit or loss

a.1.) Derivative financial assets held for trading

Derivative financial instruments other than derivative instruments intended for the fair value hedging and cash flow hedge purposes of the Bank are accounted for as "trading purpose", economically providing effective protection against risks for the Bank. Liabilities and receivables arising from derivative transactions are recorded in off-balance sheet accounts at contractual amounts. Derivative financial instruments are measured at fair value in subsequent periods and if the fair value is positive, they are classified under "derivative financial assets measured at fair value through profit or loss". If fair value is negative derivative transactions are classified under "derivative financial liabilities measured at fair value through profit or loss". After valuation, differences of changes in fair value are reflected in the statement of profit or loss.

a.2.) Derivative financial assets held for hedging purpose

The Bank notifies in written the relationship between hedging instrument and related account, risk management aims of hedge and strategies and the methods using to measure of the hedge effectiveness.

The Bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

3 Significant accounting policies *(continued)*

3.8 Explanations on forward transactions, options and derivative instruments *(continued)*

Accounting policies applied as of 1 January 2018 *(continued)*

a.2.) Derivative financial assets held for hedging purpose *(continued)*

Changes in fair values of derivative transactions under fair value hedges are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in "Gains/Losses on derivative financial instruments" account. In the statement of financial position, change in fair value of hedged asset or liability during the hedge accounting to be effective is shown with the related asset or liability. In case of inferring hedge accounting, corrections made to the value of hedge account using straight-line amortization method within the days to maturity are reflected to "Income/losses from derivative financial instruments" account in the statement of profit or loss.

b.) Financial assets measured at fair value through other comprehensive income

b.1.) Derivative financial instruments held for hedging

The Bank hedges its cash flow risk arising from floating-rate liabilities in foreign currency and TL by cross-currency swaps. In this context, the fair value changes of the effective portion of the hedging instruments are accounted under the "hedgeing reserves" account within equity. In the period in which the cash flows affect the statement of profit or loss for the hedged item, the hedging instrument relating to the profit/loss is extracted from equity and recognized in the statement of profit or loss.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. While expiring, sale, discontinuing cash flow hedge accounting or when no longer effective the cumulative gains/losses recognised in shareholders' equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item incur, the gain/losses accounted for under shareholders' equity are transferred to statement of profit or loss.

Effectiveness tests are performed at the beginning of the hedge accounting period and at each reporting period. The hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.

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

3 Significant accounting policies *(continued)*

3.9 Explanations on financial assets

Accounting policies applied as of 1 January 2018 *(continued)*

The Bank recognises its financial assets as "Financial Assets Measured at Fair Value Through Profit/Loss", "Financial Assets Measured at Fair Value Through Other Comprehensive Income" or "Financial Assets Measured at Amortized Cost".

At initial recognition, financial assets are measured at fair value. In the case if financial assets are not measured at fair value through profit or loss, transaction costs are added or deducted to/from their fair value. During the initial recognition of a financial asset into the financial statements, business model determined by the Bank management and the nature of contractual cash flows of the financial asset are taken into consideration.

Classification and measurement of financial instruments

The classification of financial instruments at the time of initial recognition depends on the characteristics of the relevant business model and contractual cash flows used for management.

In accordance with IFRS 9, if a financial asset is held under a business model that is intended to collect a business model or contractual cash flows for the purpose of collecting contractual cash flows and that is intended to sell financial assets, such financial asset is classified based on the characteristics of the contractual cash flows.

During the transition period, the Bank conducted the test of whether the entire loan portfolio "Contractual Cash Flows are comprised only of Interest and Principal" and all of the Bank's portfolio recognized under "Financial assets measured at amortised cost".

Business model Evaluation

In accordance with IFRS 9, the business model is determined at a level that demonstrates how the financial asset groups are managed together to achieve a specific management objective.

Measurement categories of financial assets and liabilities

As of the effective date of IFRS 9 standard; 1 January 2018, the Bank started to classify its' financial assets based on the business model it uses to manage these assets. Three main classes to classify financial assets are:

- Financial assets at fair value through profit and loss
- Financial assets at fair value through other comprehensive income
- Financial assets measured at amortized cost

Financial assets measured at fair value through profit/loss

Financial assets measured at fair value through profit or loss are financial assets that are managed with the business model other than the business model that aims to collect and sell the contractual cash flows and the contractual terms of the financial assets, do not result in cash flows that include interest payments arising only from the principal and principal balance at specific dates; are financial assets that are acquired in order to generate profits from fluctuations in prices and similar factors in the short term in the market or are part of a portfolio aimed at achieving profit in the short term regardless of the reason for the acquisition.

Financial assets measured at fair value through profit or loss are initially recognized at cost in the financial statements. All regular way purchases and sales of financial assets are recognized and derecognized at the settlement date.

3 Significant accounting policies *(continued)*

3.9 Explanations on financial assets *(continued)*

Accounting policies applied as of 1 January 2018 *(continued)*

Financial assets measured at fair value through profit/loss *(continued)*

The government bonds and treasury bills recognized under financial assets measured at fair value through profit/loss which are traded on Borsa İstanbul AŞ ("BIST") are valued with weighted average prices settled on BIST as of the reporting date; and those government bonds and treasury bills traded on BIST but which are not subject to trading on BIST as of the reporting date are valued with weighted average prices at the latest trading date.

The financial assets classified under trading financial assets and whose fair values cannot be measured reliably are carried at amortized cost using the "effective yield method". The difference between the purchase cost and the amortized cost at the selling date is recorded as interest income.

If the selling price of a financial asset measured at fair value through profit/loss is above its amortized cost as of the sale date, the positive difference between the selling price and the amortized cost is recognized as income under trading gains on securities and if the selling price of a trading security is lower than its amortized cost as of the sale date, the negative difference between the selling price and the amortized cost is recognized as expense under trading losses on securities.

As of 30 June 2018, the Bank does not have any financial assets or liabilities at fair value through profit or loss.

Financial assets at fair value through other comprehensive income

In accordance with IFRS 9, if all of the following conditions are met, the related financial assets are measured by reflecting the fair value difference in other comprehensive income.

- Management of financial assets through a business model aimed at collecting and selling their contractual cash flows and
- The contractual terms of the financial asset leading to cash flows that include interest payments caused by the principal and principal balance on certain dates.

Financial Assets Measured at Fair Value Through Other Comprehensive Income are valued at fair value in the periods subsequent to their acquisition. If the underlying fair value is not realized in the active market conditions, it is accepted that the fair value is not determined reliably and the fair value is determined by using the discounted value of other comprehensive income and reflected at amortized cost, are accounted for by rediscount.

Difference between the fair value of financial assets at fair value through other comprehensive income and their amortized costs; unrealized profits and losses, is not shown on the periods' of profit or loss statement until the value of the financial asset is collected, the asset is sold or disposed of and it is followed under the account "other comprehensive income and expenses to be reclassified to profit or loss" in the shareholder's equity section. When the values of these marketable securities are collected or when they are disposed of, the accumulated fair value differences reflected in the shareholder's equity before are transferred to the profit or loss statement.

However, the Bank may, at initial recognition, irrevocably choose the method of reflecting changes in fair value to other comprehensive income for specific investments on equity instruments that would normally be measured at fair value through profit or loss.

Marketable securities classified as financial assets at fair value through other comprehensive income which represent share in capital are accounted at their fair value. As an exception, the cost may be an appropriate estimation method for the determination of fair value. This is only possible when there is enough recent information on the measurement of fair value or when the fair value can be measured by more than one method and it is certain that one of these methods represent the fair value estimation in the best way.

3 Significant accounting policies *(continued)*

3.9 Explanations on financial assets *(continued)*

Accounting policies applied as of 1 January 2018 *(continued)*

Financial assets measured at fair value through profit/loss *(continued)*

As of 1 January 2018, the date of transition of IFRS 9, the securities which are irrevocably classified under "Financial assets at fair value through other comprehensive income" are listed as follows:

- Garanti Faktoring A.Ş.

- Kredi Garanti Fonu A.Ş.

- Borsa İstanbul A.Ş.

Financial assets measured at amortized cost

The Bank may keep its financial assets at amortized cost as long as the following conditions are met.

- Retention of the financial asset in the context of a business model aimed at collecting contractual cash flows

- The contractual terms of the financial asset lead to cash flows that include interest payments on principal and principal balances on certain dates.

Financial assets measured at amortized cost are initially recorded at acquisition cost values with the addition of transaction costs and are measured at amortized cost using effective interest rate method after being recorded.

Loans are financial assets that have fixed or determinable payments and are not quoted in an active market. These loans are initially recognized at cost of acquisition with the addition of transaction costs, and are measured at amortized cost using effective interest rate method after their recognition.

The Bank has been tested "whether contractual cash flows consist of only interest and principal or not" in its the all credit portfolio and after all portfolio has passed the test, the Bank has started to measure all the loans at amortised cost.

Explanations on impairment of financial assets

As of 1 January 2018, the Bank recognizes provisions for impairment in accordance with IFRS 9 requirements. Equity instruments are not subject to impairment assessment.

At each reporting date, it is assessed whether there has been a significant increase in the carrying amount of the financial instrument within the scope of the impairment since the financial statements for the first time. When this evaluation is performed, the change in the expected default risk of the financial instrument is used.

3 Significant accounting policies *(continued)*

3.9 Explanations on financial assets *(continued)*

***Accounting policies applied as of 1 January 2018** (continued)*

Explanations on expected credit losses

The expected credit losses are estimated to be unbiased, weighted according to probabilities, and include information that can be supported about past events, current conditions and future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information.

Probability of default (PD): It expresses the probability of default of credit in a certain period of time. The PD and LD parameters used in the calculation of the expected credit loss are calculated as including both current and expected loop changes as instant PD (point in time, PIT). The Bank uses two different default probability values to calculate expected credit losses in accordance with IFRS 9.

- 12-month default probability: Estimation of default probability within 12 months after the reporting date
- Lifetime default probability: Estimation of default probability over the expected life of the financial instrument
- Lost Given Default (LGD): If the borrower is in default, it refers to the economic loss caused by the loan. The ratio is expressed as.

Exposure at Default (EAD): Represents the outstanding balance of cash loans as of the date of the report. In non-cash loans and commitments, it is the value calculated by applying the credit conversion rate.

Financial assets are divided into the following three categories based on the increase in the credit risks observed since the initial acquisition of financial assets:

12-month expected credit losses ('stage 1'): For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. , this instruments are impaired at an amount equal to 12-month expected credit losses (resulting from the risk of default within the next 12 months)

Lifetime expected credit losses for non-impaired assets ('stage 2'): Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

Lifetime expected credit losses for credit-impaired financial assets ('stage 3'): Includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

This general model is applied to all instruments within the scope of IFRS 9 impairment.

Measurement of expected credit losses

In practice, for exposures classified in stage 1 and stage 2, expected credit losses are measured as the product of the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), discounted at the effective interest rate of the exposure (EIR). They result from the risk of default within the next 12 months (stage 1), or from the risk of default over the maturity of the facility (stage 2).

3 Significant accounting policies *(continued)*

3.9 Explanations on financial assets *(continued)*

3.9 Measurement of expected credit losses*(continued)*

For exposures classified in stage 3, expected credit losses are measured as the value, discounted at the effective interest rate, of all cash shortfalls over the life of the financial instrument. Cash shortfalls represent the difference between the cash-flows that are due in accordance with the contract, and the cash-flows that are expected to be received.

Maturity

All contractual terms of the financial instrument (including prepayment, extension and similar options) over the life of the instrument are taken into account.

Probabilities of Default (PD)

The Probability of Default is an estimate of the likelihood of default over a given time horizon. The measurement of expected credit losses requires the estimation of both 1 year probabilities of default and lifetime probabilities of default.

Loss Given Default (LGD)

The Loss Given Default is the difference between the contractual cash-flows and the expected cash-flows. The LGD is expressed as a percentage of the EAD.

Exposure at Default (EAD)

The Exposure at Default of an instrument is the anticipated outstanding amount owed by the obligor at the time of default.

Forward looking

The amount of expected credit losses is measured on the basis of probability-weighted scenarios, in view of past events, current conditions and reasonable and supportable economic forecasts.

3.11 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

3 Significant accounting policies *(continued)*

3.9 Explanations on financial assets *(continued)*

3.12 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful life for the current and comparative periods is as follows:

	Years
Buildings	50 years
Vehicles	5 years
Other tangible assets	1 - 50 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reviewed at each financial period end and adjusted if appropriate.

3.13 Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to five years.

3.14 Investment property

Investment properties consist of properties held for obtaining lease income and/or held for recognizing fair value increase. Investment properties are accounted with the cost amount after deduction of accumulated depreciation and permanent impairement losses. Investment properties are depreciated in accordance with the useful life principles with straight-line depreciation method. Gains or losses rising from the disposal or out of usage of the investment property, shall be determined as the difference between the net income from the sale and the carrying amount of the asset and shall be recognised in profit or loss in the period of disposal or out of usage.

3 Significant accounting policies *(continued)*

3.15 Assets held for sale

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

3.16 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

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

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

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

3.17 Funds borrowed

Funds borrowed are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.18 Debt securities

Debt securities issued are carried at "amortized cost" using the "effective interest method", except where the Bank chooses to carry the liabilities at fair value through profit or loss.

3.19 Provisions

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3 Significant accounting policies *(continued)*

3.20 Employee benefits

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee's probable future liability arising from the retirement. IAS 19 (2011) ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 (2011) ("Employee Benefits") has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

Short-term employee benefits

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

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

The Bank does not have any internally set defined contribution plan.

3.21 Events after the reporting period

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

3.22 Explanations on prior period accounting policies not valid for the current period

Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. Any gains or losses resulting from such valuation are recorded in profit and loss. Any positive difference between the historical cost and amortised cost of financial assets are recognised under the "Interest Income" account, and in case the fair value of the asset is over the amortised cost, the positive difference is recognised in the "Gains and Losses on Financial Instruments Classified as Held for Trading – Trading Income" account. If the fair value is less than the amortised cost, the negative difference is recognised under the "Gains and Losses on Financial Instruments Classified as Held for Trading – Trading Expense" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognised within the framework of the same principles. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and advances to customers (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and advances to customers, then it may be reclassified out of the trading category only in rare circumstances.

3 Significant accounting policies *(continued)*

3.22 Explanations on prior period accounting policies not valid for the current period *(continued)*

Loans and advances

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorised as loans originated by the Bank and are carried at amortised cost, net of any provision for impairment losses. All originated loans are recognised when cash is advanced to borrowers. Cash guarantees received for loans and advances given are recorded under "other liabilities" upon receipt and repaid back to the borrower on the maturity date when the Bank collects all amounts due.

A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the original effective interest rate. The level of the provision is also based on applicable banking regulations. An additional provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

The provision made during the year is charged against the income for the year. Loans that cannot be recovered are written off against the allowance for impairment losses. Such loans are written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for impairment losses for the period.

Held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities that the Bank has the intent and ability to hold until maturity. Investment securities held-to-maturity is initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in profit or loss.

Available-for-sale financial investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale reserve".

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income is recognised in profit or loss.

3 Significant accounting policies *(continued)*

3.22 Explanations on prior period accounting policies not valid for the current period *(continued)*

Identification and measurement of impairment

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

3.23 Explanations of IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments", which is effective as at 1 January 2018 replaced IAS 39 "Financial Instruments: Recognition and Measurement", related to the classification and measurement of financial instruments.

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and general hedge accounting.

In accordance with the transition rules option provided by the IFRS 9 "Financial Instruments", the Bank did not restate the prior period financial statements and recognized the transition effect of the standard in retained earnings as of 1 January 2018.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

3 Significant accounting policies *(continued)*

3.23 Explanations of IFRS 9 financial instruments *(continued)*

Reconciliation of statement of financial position balances to IFRS 9

Reclassifications and remeasurements for the first time application of IFRS 9 "Financial Instruments" as of 1 January 2018 are presented below.

	31.Dececember 2017	IFRS 9 Reclassification Effect	IFRS 9 Measurement Effect	01.January2018
ASSETS				
Cash and due from banks	3,546,284	-	(1,841)	3,544,443
Financial assets measured at fair value through profit or loss	-	3,094	-	3,094
Trading securities	11,710	(11,710)	-	-
Derivative financial instruments	15,553	-	-	15,553
Derivative assets held for risk management	133,606	-	-	133,606
Loans and advances to customers	80,253,617	-	27,259	80,280,876
Investment securities	-	-	-	-
-Financial assets measured at fair value through other comprehensive income	-	30,318	-	30,318
-Financial assets measured at amortized cost	-	189,077	1,749	190,826
-Available-for-sale	30,318	(30,318)	-	-
-Held-to-maturity	180,461	(180,461)	-	-
Property and equipment	6,235	-	-	6,235
Intangible assets	6,053	-	-	6,053
Investment property	2,236	-	-	2,236
Other assets	1,056,117	-	(1,240)	1,054,877
Total assets	**85,242,190**	**-**	**25,927**	**85,268,117**
LIABILITIES				
Funds borrowed	67,400,266	-	-	67,400,266
Debt securities in issue	10,279,210	-	-	10,279,210
Interbank money market deposits	152,000	-	-	152,000
Other liabilities and provisions	1,044,075	-	5,495	1,049,570
Derivative financial instruments	384,351	-	-	384,351
Derivative liabilities held for risk management	188,286	-	-	188,286
Retirement benefit obligations	19,116	-	-	19,116
Total liabilities	**79,467,304**	**-**	**5,495**	**79,472,799**
EQUITY				
- Share capital	*4,800,000*	-	-	*4,800,000*
- Adjustment to share capital	*38,091*	-	-	*38,091*
Total paid in share capital	4,838,091	-	-	4,838,091
Legal reserves	349,896	-	-	349,896
Other reserves	-	-	-	-
Hedging reserves	(1,512)	-	-	(1,512)
Fair value reserves	21,154	-	-	21,154
Retained earnings	567,257	-	20,432	587,689
Total equity	**5,774,886**	**-**	**20,432**	**5,795,318**
Total liabilities and equity	**85,242,190**	**-**	**25,927**	**85,268,117**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

3 Significant accounting policies *(continued)*

3.23 Explanations of IFRS 9 financial instruments *(continued)*

Reconciliation of the opening balances of the provision for expected credit losses to IFRS 9

The table below shows the reconciliation of the provision for impairment of the Bankas of 31 December 2017 and the provision for the expected loss model as measured in accordance with IFRS 9 as of 1 January 2018.

	Before IFRS 9	IFRS 9 Measurement Effect	In scope of IFRS 9
	31 December 2017	**1 January 2018**	**1 January 2018**
Loans	**320,711**	**(27,259)**	**293,452**
-Stage 1	126,575	(120,461)	6,114
-Stage 2	2,407	(1,935)	472
-Stage 3	191,729	95,137	286,866
Financial assets	**247**	**3,094**	**3,341**
-Due from banks	247	1,841	2,088
-Financial assets measured at amortized cost	-	13	13
-Other assets	-	1,240	1,240
Insurance technical provisions	**66,082**	**5,495**	**71,577**
Total	**387,040**	**(18,670)**	**368,370**

Effects on equity with IFRS 9 transition

According to paragraph 15 of Article 7 of IFRS 9 "Financial Instruments", it is stated that it is not compulsory to restate previous period information in accordance with IFRS 9 and if the previous period information is not restated, it is stated that the difference between the book value of 1 January 2018 at the date of application has to be reflected in the opening balances on equity.

The difference amounting to TL 18,670 which is an income between the provision for impairment of the previous period of the Bank and the provision for loss that is measured and in accordance with IFRS 9 impairment model as of 1 January 2018 is presented as "Impact of adopting IFRS 9 at January 2018" in the statement of shareholders' equity.

As of 1 January, with the adoption of IFRS 9, some public debt securities with the amount of TL 8,616 under "financial assets at fair value through profit and loss" portfolio are classified as "financial assets measured at amortised cost" due to fact that they are assessed within the scope of a business model whose objective is achieved by collecting contractual cash flows. The difference between the carrying amount at the initial acquisition date and the carrying amount at 1 January 2018 is TL 1,762 is followed under equity.

As of 1 January 2018, due to first time adoption of IFRS 9, total shareholders' equity figure increased by TL 1,762 composing of positive classification impact of financial assets, positive expected credit losses calculation impact amounting to TL 18,670.

Since the previous categories under TAS 39 have been excluded from use, the Bank also reclassified financial assets in accordance with IFRS 9 and there is no equity effect of these classification transactions.

4 FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

As of 30 June 2018, the loan portfolio of the Bank constitutes 93% (31 December 2017: 94%) of total assets. In short, medium and long term lending (except for fund sourced and country loans), the Bank is taking the risk of the Turkish banking system, however medium-to-long term country loans are under the political risk guarantee of the Turkish Treasury.

The Board of Directors of the Bank sets risk limits and parameters for the transactions having significant implications for the operations of the Bank.

The objective of the Bank’s asset and liability management and use of financial instruments is to limit the Bank’s exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy.

(b) Credit risk

According to article numbered 25 of the decree (regulating the “Articles of Association” of the Bank) of the Council of Ministers dated 17 June 1987; the scope of the annual operations of the Bank is determined by the Bank’s Annual Program that is approved by Supreme Advisory and Credit Guidance Committee (“SCLGC”). SCLGC is chaired by the Prime Minister or State Minister appointed by the Prime Minister and includes executive managers. The Board of Directors of the Bank is authorised to allocate the risk limits of loan, guarantee and insurance premium to country, sector and commodity Banks, within the principles set by the Annual Program.

In accordance with the collateralisation policy of the Bank, the Bank is taking the risks of short term loans to domestic banks. The cash and non-cash limits of domestic banks for short term and medium and long term credits are approved by the Board of Directors.

The Board of Directors fulfilled authorisations for the determination of loan limits for a person or legal entity, limited with only the loans which were given with respect to specified guaranties, within the framework of the 5th item in the Regulation related with Loan Transactions.

The risk limits of the foreign country loans are determined by annual programs which are approved by SCLGC within the foreign economic policy.

Country loans are granted with the approval of the Board of Directors and the approval of the Minister and the Council of Ministers; according to article 10 of Act number 4749 dated 28 March 2002 related to the regulation of Public Finance and Debt Management.

The fundamental collateral of the foreign country loans are the government guarantee of the counter country and the guarantee of banks that the Bank accepts as accredited.

The limit of a country is restricted by both “maximum limit that can be undertaken” and “maximum amount that can be used annually”.

Each year major portion of the commercial and politic risks emerged in Short Term Export Insurance Program is transferred to international reinsurance companies under renewed agreements.

According to the Article 4/C of Act number 3332 that was appended by Act number 3659 and Act regarding the regulation of Public Financing and Debt Management dated 28 March 2002, the losses incurred by the Bank in its credit, guarantee and insurance transactions as a result of political risks are covered by the Turkish Treasury.

The Bank reviews reports of OECD country risk ratings, reports of the members of the International Union of Credit and Investment Insurers, reports of independent credit rating institutions and the financial statements of the banks risks of which are undertaken during the assessment and review of the loans granted. In addition, country reports and short term country risk classifications prepared within the Bank are also utilised.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

The risks and limits of companies and banks are followed by both loan and risk departments on a weekly and monthly basis.

In addition, all of the foreign exchange denominated operations and other derivative transactions of the Bank are carried out under the limits approved by the Board of Directors.

Business and geographic distribution of the loan risks runs parallel with the export composition of Turkey and this is followed up by the Bank regularly.

Impairment and provisioning policies

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank considers evidence of impairment for loans and advances at a specific asset level.

The classification of the loan portfolio of the Bank under the following categories is as follows:

	30 June 2018		**31 December 2017**	
	Corporate loans	**Personnel loans**	**Corporate loans**	**Personnel Loans**
Neither past due nor impaired	94,585,108	13,293	79,780,804	10,081
Past due but not impaired	603,073	-	489,212	-
Individually impaired	320,965	-	294,231	-
Total loans and advances to customers	**95,509,146**	**13,293**	**80,564,247**	**10,081**
Expected credit losses- Stage 1	(17,696)	-		
Expected credit losses- Stage 2	(709)	-		
Expected credit losses- Stage 3	(317,459)	-		
Allowance for impairment losses			(320,711)	-
Net loans and advances to customers	**95,173,282**	**13,293**	**80,243,536**	**10,081**

As of 30 June 2018 and 31 December 2017, loans and advances that are past due but not impaired are as follows:

	30 June 2018	**31 December 2017**
Past due up to 30 days	549,381	469,592
Past due 30-60 days	52,366	18,693
Past due 60-90 days	1,326	927
Past due 90 days-one year	-	-
Total loans and advances that are past due but not impaired	**603,073**	**489,212**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

In line with the mission of the Bank, the Bank grants loans only to corporate customers either directly or indirectly through banks and financial institutions and follows its credit portfolio under categories specified below:

	30 June 2018		31 December 2017	
	Corporate loans	**Personnel loans**	**Corporate loans**	**Personnel loans**
Standard loans and advances	94,585,108	13,293	79,780,804	10,081
Loans and advances under close monitoring[1]	603,073	-	489,212	-
Impaired loans and advances	320,965	-	294,231	-
Total loans and advances to customers	**95,509,146**	**13,293**	**80,564,247**	**10,081**
Expected credit losses- Stage 1	(17,696)	-		
Expected credit losses- Stage 2	(709)	-		
Expected credit losses- Stage 3	(317,459)	-		
Allowance for impairment losses			(320,711)	-
Net loans and advances to customers	**95,173,282**	**13,293**	**80,243,536**	**10,081**

[1] As of 30 June 2018, loans and advances under close monitoring includes loans amounting to TL 549,381 (31 December 2017: TL 201,883) that were not past due but had been extended to customers whose other loans are under close monitoring.

As of 30 June 2018 and 31 December 2017 the fair value of collaterals held for total loans and advances are as follows:

	30 June 2018		31 December 2017	
	Corporate Loans	**Personnel loans**	**Corporate loans**	**Personnel Loans**
Loans guaranteed by other banks	84,691,799	-	71,761,902	-
Loans guaranteed by a third party	-	13,293	-	10,081
Total	**84,691,799**	**13,293**	**71,761,902**	**10,081**
Unsecured exposures[1]	10,817,347	-	8,802,345	-
Total loans and advances to customers	**95,509,146**	**13,293**	**80,564,247**	**10,081**

[1] Unsecured exposures represent loans and advances granted to domestic banks, foreign banks and other financial institutions and individually impaired loans.

As of 30 June 2018, the Bank does not have repossessed collateral (31 December 2017: None).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

Bank's credit rating system

The risk assessment of banks and other financial institutions

The Bank requests independent auditor's report in addition to financial statements and related notes and net foreign currency position from banks and other financial institutions on a quarterly basis.

Financial statement information derived from the independent audit or review reports of banks and other financial institutions is recorded into a database in a standard format and percentage changes and ratios related with the capital adequacy, asset quality, liquidity and profitability of the banks and other financial institutions are calculated. In addition, the standard ratios for capital adequacy, asset quality, liquidity and profitability ratios are redefined periodically considering the operations of the banks and acceptable intervals for standard ratios are defined.

In accordance with the standard ratios, the risk ratings of banks are defined by assigning grades from 1 to 4 to banks and other financial institutions. Banks with grade 1 consist of the lowest risk profile of banks and financial institutions and banks with grade 4 consist of the highest risk profile of banks and financial institutions.

In accordance with the risk concentration of the banks and other financial institutions, the final risk is determined by considering qualitative factors such as shareholding structure, group companies, credit ratings from international credit rating institutions, quality of management and also information obtained from media.

As of 30 June 2018, loans granted by the Bank to banks and other financial institutions amount to TL 14,036,153 (31 December 2017: TL 10,732,413). As of 30 June 2018 and 31 December 2017, the concentration level of the loans and advances to banks and other financial institutions which are neither past due nor impaired in accordance with the defined financial analysis of the Bank is as follows:

		30 June 2018	31 December 2017
	Rating class	Concentration level (%)	Concentration level (%)
Low	1-2	59	76
Medium	3	37	21
High	4	4	3

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

The risk assessment of the companies:

In the risk evaluation of the companies, the Bank obtains financial and organisational information both from the companies and also from various sources (such as Central Bank of the Republic of Turkey (“CBRT”) records, Trade Registry Gazette, Chamber of Trade records, information obtained from the Undersecretariat of Foreign Trade, banks and companies operating in the same sector) and uses investigation and verification methods. In addition to the analysis of the last three year financial statements of the companies, the Bank also analyses the current status of the sectors in which the companies operate, economic and political changes affecting the target sectors in the international markets, the advantages and disadvantages of the companies compared to their rival companies operating in or outside Turkey. In case the company is a member of a group of companies not organised as a holding company, the developments that affect the Bank’s operations are monitored and outstanding bank debts of the Bank are also assessed and company analysis reports are prepared taking into account the group risk as well. The Bank does not utilise a separate rating system regarding the risk assessment of the companies.

As of 30 June 2018 and 31 December 2017, the analysis of credit limits for top 60 corporate customers constituting approximately 42% and 42%, respectively of total loans to corporate customers amounting to TL 39,733,242 (31 December 2017: TL 33,369,352) and whose loans are neither past due nor impaired at 30 June 2018 and 31 December 2017 is as follows;

	30 June 2018	31 December 2017
Credit limits (TL)	**Concentration level (%)**	**Concentration level (%)**
0 - 20,000	-	-
20,000 - 40,000	-	-
40,000 - 60,000	-	-
Over 60,000	100.00	100.00
Total	**100.00**	**100.00**

As of 30 June 2018 and 31 December 2017, the classification and allowance percentages of the loans and advances of the Bank are as follows:

	30 June 2018		31 December 2017	
	Loans and advances (%)	**Allowance for loan losses (%)**	**Loans and advances (%)**	**Allowance for loan losses (%)**
Standard loans and advances	99.02	0.14	99.02	0.16
Loans and advances under close monitoring	0.64	0.00	0.61	0.00
Impaired loans and advances	0.34	0.36	0.37	0.36
Total	**100.00**	**0.48**	**100.00**	**0.52**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

The Bank's maximum exposure to credit risk as of 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
Credit risk exposures relating to on-balance sheet assets:		
Due from banks	4,965,377	3,546,284
Loans and advances to		
- Domestic banks and other financial institutions	10,713,560	8,437,884
- Foreign banks and other financial institutions	3,322,593	2,294,529
- Corporate customers other than banks and financial institutions and personnel	81,150,422	69,521,204
Derivative assets held for trading	16,646	15,553
Derivative assets held for risk management	372,191	133,606
Trading securities	-	11,710
Investment securities		
-Financial assets measured at amortized cost	287,277	
-Held to maturity		180,461
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	7,721,203	6,241,263
Total	**108,549,269**	**90,382,494**

There are no financial assets that are past due but not impaired and there are no past due or impaired financial assets at 30 June 2018 and 31 December 2017, other than loans and advances explained above. As of 30 June 2018 and 31 December 2017, the trading securities and investment securities (held to maturity securities) are issued by the Turkish Treasury, the controlling shareholder of the Bank.

The table below shows the concentration level of due from banks for domestic banks and financial institutions which constitute approximately 55% of due from banks account at 30 June 2018 and 60% of due from banks account at 31 December 2017;

		30 June 2018	31 December 2017
	Rating class	Concentration level (%)	Concentration level (%)
Low	1-2	97	76
Medium	3	3	21
High	4	-	3

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

As of 30 June 2018 and 31 December 2017, the geographical distribution of the on-balance sheet assets exposed to credit risk:

	Turkey	EU countries	OECD countries(1)	USA	Other Countries	Total
Cash and due from banks	2,719,217	594,297	2,101	1,649,762	-	**4,965,377**
Loans and advances to						
- Domestic banks and other financial institutions	10,713,560	-	-	-	-	**10,713,560**
- Foreign banks and other financial institutions		-	-	-	3,322,593	**3,322,593**
- Corporate customers and personnel	81,150,422	-	-	-	-	**81,150,422**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	**-**
Derivative assets held for trading	-	16,646	-	-	-	**16,646**
Derivative assets held for risk management	-	372,191	-	-	-	**372,191**
Investment securities						
- Financial assets measured at amortized cost	287,277	-	-	-	-	**287,277**
As of 30 June 2018	**94,870,476**	**983,134**	**2,101**	**1,649,762**	**3,322,593**	**100,828,066**

(1) The OECD countries except for EU countries, Canada and USA.

	Turkey	EU countries	OECD countries(1)	USA	Other Countries	Total
Cash and due from banks	2,450,143	196,368	898,527	1,246	-	**3,546,284**
Loans and advances to						
- Domestic banks and other financial institutions	8,437,884	-	-	-	-	**8,437,884**
- Foreign banks and other financial institutions	-	-	-	-	2,294,529	**2,294,529**
- Corporate customers and personnel	69,521,204	-	-	-	-	**69,521,204**
Trading securities	11,710	-	-	-	-	**11,710**
Derivative assets held for trading	-	15,553	-	-	-	**15,553**
Derivative assets held for risk management	-	133,606	-	-	-	**133,606**
Investment securities						
- Held-to-maturity	180,461	-	-	-	-	**180,461**
As of 31 December 2017	**80,601,402**	**345,527**	**898,527**	**1,246**	**2,294,529**	**84,141,231**

(1) The OECD countries except for EU countries, Canada and USA.

4 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Market risk

Market risk refers to the possibility of loss that may arise due to interest, exchange rate and price changes arising from fluctuations in the financial markets in the positions of the Bank on its balance sheet and off-balance sheet accounts and consequent changes in the Bank income / expense item and equity profitability. In order to hedge against the market risk that the Bank may be exposed to as a result of financial activities, all Turkish Lira (TL) and foreign currency securities portfolio for trading purposes are evaluated on a daily basis with the current rates in the market. In order to limit the possible loss that may arise from market risk, the maximum amount of transactions that can be carried per day, including securities transactions, the maximum amount of transactions and the limit for termination of damages are applied within the limits set by the Board of Directors for all trading transactions. "Exchange Rate" and "Interest Rate" are calculated based on the "Standard Method and Market Risk Measurement Method" published by the BRSA in the calculation of the market risk exposed to the Bank in the Capital Adequacy Analysis Form.

Derivative transactions are initially measured at fair value and transaction costs that are attributable to them are recognized in profit or loss as they are incurred. They are valued with their fair values in subsequent periods. This valuation result is reflected in the financial statements as a single asset or liability on a contract basis by netting off the receivables and payables arising from each contract within their fair values. The method of accounting for the resulting profit or loss varies depending on whether the derivative is intended for hedging or not and the content of the hedged asset.

		Risk Weighted Amounts
	Outright Products	
1	Interest rate risk (general and specific)	139.288
2	Stock risk (general and specific)	-
3	Foreign exchange risk	364.912
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	1.313
7	Scenario approach	-
8	Securitizations	-
9	**Total**	**505.513**

(d) Currency risk

Foreign currency denominated assets and liabilities, together with purchase and sale commitments give rise to foreign exchange exposure.

The Bank's foreign exchange position is followed daily, and the transactions are performed in accordance with the expectations in the market and within the limits determined by the Risk Management Principles approved by the Board of Directors of the Bank.

The Bank attempts to maintain a square position in foreign exchange through its on-balance sheet and off-balance sheet activities. As part of its strategy to manage the impact of exchange rates and to hedge against foreign exchange exposure, the Bank enters into swap transactions. Short-term currency swap transactions, carried out during the year to meet exporters' foreign exchange loan demand and to manage the Bank's foreign currency risk.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorised by currency.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Currency risk *(continued)*

The table below summarises the Bank's exposure to foreign currency exchange rate risk as monitored by management at 30 June 2018 and 31 December 2017.

	30 June 2018				
	USD	**EUR**	**Other**	**TL**	**Total**
Cash and due from banks	3,076,552	761,253	8,234	1,119,338	**4,965,377**
Financial assets measured at fair value through profit or loss	-	-	-	-	**-**
Derivative financial instruments	8,683	347	29	7,587	**16,646**
Derivative assets held for risk management	363,842	-	-	8,349	**372,191**
Loans and advances to customers	37,352,728	51,520,662	205,893	6,107,292	**95,186,575**
Investment securities					
- Financial assets measured at fair value through other comprehensive income	-	-	-	23,245	**23,245**
- Financial assets measured at amortized cost	-	-	-	287,277	**287,277**
Property and equipment and intangible assets	-	-	-	13,252	**13,252**
Investment property	-	-	-	2,189	**2,189**
Other assets	235,336	681,825	1,627	310,485	**1,229,273**
Total assets	**41,037,141**	**52,964,087**	**215,783**	**7,879,014**	**102,096,025**
Funds borrowed	39,267,320	38,135,928	1,125,975	-	**78,529,223**
Debt securities in issue	14,632,972	-	-	-	**14,632,972**
Interbank money market deposits	-	-	-	155,816	**155,816**
Derivative financial instruments	12,045	3,067	-	28,396	**43,508**
Derivative liabilities held for risk management	525,789	-	-	-	**525,789**
Other liabilities	477,530	440,762	4,860	141,037	**1,064,189**
Reserve for employment termination benefits	-	-	-	21,185	**21,185**
Equity	-	-	-	7,123,343	**7,123,343**
Total liabilities and equity	**54,915,656**	**38,579,757**	**1,130,835**	**7,469,777**	**102,096,025**
Net balance sheet position	**(13,878,515)**	**14,384,330**	**(915,052)**	**409,237**	
Off balance sheet derivative instruments net notional position	**14,288,649**	**(14,323,490)**	**915,298**	**880,457**	**1,760,914**

At 30 June 2018, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 4.5580= US Dollar 1 ("USD") and TL 5.2969 = EUR 1.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Currency risk *(continued)*

	31 December 2017				
	USD	**EUR**	**Other**	**TL**	**Total**
Cash and due from banks	1,861,696	646,574	14,181	1,023,833	**3,546,284**
Trading securities	-	-	-	11,710	**11,710**
Derivative financial instruments	10,169	128	7	5,249	**15,553**
Derivative assets held for risk management	56,542	-	-	77,064	**133,606**
Loans and advances to customers	30,797,165	40,199,266	183,525	9,073,661	**80,253,617**
Investment securities					
- Available-for-sale	-	-	-	30,318	**30,318**
- Held-to-maturity	-	-	-	180,461	**180,461**
Property and equipment and intangible assets	-	-	-	12,288	**12,288**
Investment property	-	-	-	2,236	**2,236**
Other assets	346,257	300,185	211	409,464	**1,056,117**
Total assets	**33,071,829**	**41,146,153**	**197,924**	**10,826,284**	**85,242,190**
Funds borrowed	35,446,157	31,018,565	935,544	-	**67,400,266**
Debt securities in issue	10,279,210	-	-	-	**10,279,210**
Interbank money market deposits	-	-	-	152,000	**152,000**
Derivative financial instruments	234,009	124,885	3,157	22,300	**384,351**
Derivative liabilities held for risk management	177,042	-	-	11,244	**188,286**
Other liabilities	506,930	288,093	1,502	247,550	**1,044,075**
Reserve for employment termination	-	-	-	19,116	**19,116**
Equity	-	-	-	5,774,886	**5,774,886**
Total liabilities and equity	**46,643,348**	**31,431,543**	**940,203**	**6,227,096**	**85,242,190**
Net balance sheet position	**(13,571,519)**	**9,714,610**	**(742,279)**	**4,599,188**	
Off balance sheet derivative instruments net notional position	**13,415,681**	**(9,737,749)**	**737,799**	**4,415,731**	**8,831,462**

At 31 December 2017, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 3,7750 = US Dollar 1 ("USD") and TL 4,5138 = EUR 1.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Currency risk *(continued)*

As of 30 June 2018 and 31 December 2017, the effect of the devaluation of TL by 10% against other currencies mentioned below, on net profit and equity of the Bank, are presented in the table below. The analysis covers all foreign currency denominated assets and liabilities. The other variables, especially interest rates are assumed to be fixed.

	30 June 2018		31 December 2017	
	Effect on net profit	**Effect on equity(1)**	**Effect on net profit**	**Effect on equity(1)**
USD	41,013	41,013	(15,584)	(15,584)
EUR	6,084	6,084	(2,314)	(2,314)
Other currencies	25	25	(448)	(448)
Total	**47,122**	**47,122**	**(18,346)**	**(18,346)**

(1) Effect on equity also includes effect on net income.

As of 30 June 2018 and 31 December 2017, the effect of the appreciation of TL by 10% against other currencies with all other variables held constant, on net profit and equity of the Bank is the same as the total amount with a negative sign as presented in the above table.

(e) Interest rate risk

The Bank estimates the effects of the changes in interest rates on the profitability of the Bank by analysing TL and foreign currency denominated interest rate sensitive assets and liabilities considering both their interest components as being fixed rate or variable rate and also analysing their weights among the Bank's total assets and liabilities. Long or short positions arising from interest rate risk are determined by currency types at the related maturity intervals (up to 3 months, 3 months to 1 year, 1 year to 5 years and over 5 years) as of the period remaining to repricing date, considering the repricing of TL and foreign currency-denominated interest sensitive assets and liabilities at maturity date (for fixed rate) or at interest payment dates (for floating rate). By classifying interest sensitive assets and liabilities according to their repricing dates, Bank's exposure to possible variations in market interest rates are determined.

The Bank determines maturity mismatches of assets and liabilities by analysing the weighted average days to maturity of TL and foreign currency-denominated (for each currency and in total in terms of their USD equivalents) assets and liabilities.

According to the Risk Management Policy approved by the Board of Directors, the Bank emphasises the matching of assets and liabilities with fixed and floating interest rates and under different currencies and also pays special attention to the level of maturity mismatch of assets and liabilities with floating and fixed interest rates in relation to the asset size of the Bank in order to limit the negative effects of interest rate changes on the Bank's profitability.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Interest rate risk *(continued)*

As of 30 June 2018 and 31 December 2017, the tables below summarise the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates;

	30 June 2018					
	Up to 3 Months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and due from banks	4,169,531	-	-	-	795,846	4,965,377
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
Derivative financial instruments	16,089	-	557	-	-	16,646
Derivative assets held for risk management	151,459	207,687	13,045	-	-	372,191
Loans and advances to customers	32,363,675	62,126,598	575,276	17,186	103,840	95,186,575
Investment securities						
- Financial assets measured at fair value through other comprehensive income	-	-	-	-	23,245	23,245
- Financial assets measured at amortized cost	82,002	123,445	81,830	-	-	287,277
Property and equipment and intangible assets	-	-	-	-	13,252	13,252
Investment property	-	-	-	-	2,189	2,189
Other assets	24,431	89,881	184,177	90,348	840,436	1,229,273
Total assets	**36,807,187**	**62,547,611**	**854,885**	**107,534**	**1,778,808**	**102,096,025**
Funds borrowed	21,694,487	56,834,736	-	-	-	**78,529,223**
Debt securities in issue	6,780,751	7,852,221	-	-	-	**14,632,972**
Interbank money market deposits	155,816	-	-	-	-	**155,816**
Derivative financial instruments	42,231	1,277	-	-	-	**43,508**
Derivative liabilities held for risk management	95,557	427,752	2,480	-	-	**525,789**
Other liabilities	146,878	441,556	2,480	-	473,275	**1,064,189**
Reserve for employee benefits	-	-	-	-	21,185	**21,185**
Total liabilities	**28,915,720**	**65,557,542**	**4,960**	**-**	**494,460**	**94,972,682**
Net repricing gap	**7,891,467**	**(3,009,931)**	**849,925**	**107,534**	**1,284,348**	**7,123,343**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Interest rate risk *(continued)*

	31 December 2017					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and due from banks	2,864,354	-	-	-	681,930	**3,546,284**
Trading securities	-	-	-		11,710	**11,710**
Derivative financial instruments	3,081	12,269	203	-	-	**15,553**
Derivative assets held for risk management	38,660	94,946	-	-	-	**133,606**
Loans and advances to customers	35,224,021	44,493,552	433,542	-	102,502	**80,253,617**
Investment securities						
- Available-for-sale	-	-	-	-	30,318	**30,318**
- Held-to-maturity	17,208	142,161	21,092	-	-	**180,461**
Property and equipment and intangible assets	-	-	-	-	12,288	**12,288**
Investment property	-	-	-	-	2,236	**2,236**
Other assets	38,660	94,946	-	-	922,511	**1,056,117**
Total assets	**38,185,984**	**44,837,874**	**454,837**	**-**	**1,763,495**	**85,242,190**
Funds borrowed	33,208,140	34,160,530	31,596	-	-	**67,400,266**
Debt securities in issue	3,732,210	4,565,724	1,981,276	-	-	**10,279,210**
Interbank money market deposits	152,000	-	-	-	-	**152,000**
Derivative financial instruments	95,132	4,564	284,655	-	-	**384,351**
Derivative liabilities held for risk management	81,447	106,839	-	-	-	**188,286**
Other liabilities	186,540	154,600	284,837	-	418,098	**1,044,075**
Reserve for employee benefits	-	-	-	-	19,116	**19,116**
Total liabilities	**37,455,469**	**38,992,257**	**2,582,364**	**-**	**437,214**	**79,467,304**
Net repricing gap	**730,515**	**5,845,617**	**(2,127,527)**	**-**	**1,326,281**	**5,774,886**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Interest rate risk *(continued)*

The tables below summaries the range for effective average interest rates by major currencies for monetary financial instruments of the Bank at 30 June 2018 and 31 December 2017:

	30 June 2018				
	USD (%)	**EUR (%)**	**JPY (%)**	**GBP (%)**	**TL (%)**
Assets					
Cash and due from banks	-	-	-	-	-
-Cash equivalents	-	-	-	-	-
-Time deposits in foreign banks	1.74	-	-	-	-
-Time deposits in domestic banks	-	-	-	-	14.49
-Interbank money market placements	-	-	-	-	14.99
Financial assets measured at fair value through profit or loss	-	-	-	-	-
Loans and advances to customers	2.67	1.53	1.02	1.40	8.25
Investment securities	-	-	-	-	-
- Financial assets measured at amortized cost	-	-	-	-	13.51
Liabilities					
Funds borrowed	1.46	0.53	1.71	1.18	-
Debt securities in issue	5.35	-	-	-	-
Interbank money market deposits	-	-	-	-	14.01

	31 December 2017				
	USD (%)	**EUR (%)**	**JPY (%)**	**GBP (%)**	**TL (%)**
Assets					
Cash and due from banks	-	-	-	-	-
-Cash equivalents	1.09	0.01	-	-	11.95
-Time deposits in foreign banks	-	-	-	-	-
-Time deposits in domestic banks	-	-	-	-	-
-Interbank money market placements	-	-	-	-	13.26
Trading securities	-	-	-	-	8.49
Loans and advances to customers	2.29	1.27	0.98	1.30	8.78
Investment securities	-	-	-	-	-
-Held-to-maturity	-	-	-	-	11.57
Liabilities					
Funds borrowed	1.28	0.53	1.70	1.18	12.18
Debt securities in issue	5.18	-	-	-	-
Interbank money market deposits	-	-	-	-	-

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Interest rate risk *(continued)*

In the analysis presented below, the sensitivity of profit or loss is the effect in the interest rates on the net interest income of floating rate financial assets and liabilities at 30 June 2018 and 31 December 2017. The sensitivity of the shareholders' equity at 30 June 2018 and 31 December 2017 is calculated through revaluating the financial assets measured at fair value through other comprehensive income taking into account the possible changes in interest rates, where applicable. The tax effects are not considered in the analysis. The other variables, especially exchanges rates, are assumed to be fixed in this analysis.

30 June 2018	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders' equity – losses/ shareholders' equity (%)
1	TL	500	(120,658)	(1.67)
		(400)	102,973	1.42
2	EURO	200	(12,373)	(0.17)
		(200)	12,890	0.18
3	USD	200	(198,449)	(2.74)
		(200)	228,349	3.15
	Total (For negative shocks)		**344,212**	**4.75**
	Total (For positive shocks)		**(331,480)**	**(4.58)**

31 December 2017	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders' equity – losses/ shareholders' equity (%)
1	TL	500	(104,751)	(1.78)
		(400)	89,704	1.52
2	EURO	200	(37,714)	(0.64)
		(200)	7,796	0.13
3	USD	200	154,829	2.63
		(200)	(166,210)	(2.82)
	Total (For negative shocks)		**(68,710)**	**(1.17)**
	Total (For positive shocks)		**12,364**	**0.21**

(f) Liquidity risk

A major objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments and to satisfy the Bank's own liquidity needs. The Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets determined by the Board of Directors which it judges sufficient to meet its commitments.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity management of the Bank. The ability to fund the existing and prospective debt requirements is managed by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions. It is unusual for banks ever to be completely matched since the maturity, interest rates and the types of business transactions are different. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The Bank uses the TL and foreign currency cash flow schedules prepared weekly, monthly and annually in the decision making process of the liquidity management.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

The Bank's liquidity coverage rates for 30 June 2018 are presented in the table below.

		Total Unweighted Value (Average) (*)		Total Weighted Value (Average) (*)	
Current Period		**TL+FC**	**FC**	**TL+FC**	**FC**
High-Quality Liquid Assets					
1	Total high-quality liquid assets (HQLA)			794,208	714,147
Cash Outflows					
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-
3	Stable deposits	-	-	-	-
4	Less stable deposits	-	-	-	-
5	Unsecured wholesale funding, of which:	-	-	-	-
6	Operational deposits	-	-	-	-
7	Non-operational deposits	-	-	-	-
8	Unsecured funding	7,211,603	7,121,757	3,449,752	3,412,914
9	Secured wholesale funding			-	-
10	Other cash outflows of which:	-	-	-	-
11	Outflows related to derivative exposures and other collateral requirements	11,758	2,978	11,758	2,978
12	Outflows related to restructured financial instruments	-	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	491,200	482,006	196,479	192,802
14	Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
15	Other irrevocable or conditionally revocable off-balance sheet obligations	7,285,210	7,285,210	364,260	364,260
16	**Total Cash Outflows**			**4,022,249**	**3,972,954**
Cash Inflows					
17	Secured receivables	-	-	-	-
18	Unsecured receivables	13,220,041	10,832,739	9,552,655	7,510,369
19	Other cash inflows	70,187	7,023	70,187	7,023
20	**Total Cash Inflows**	**13,290,228**	**10,839,762**	**9,622,842**	**7,517,392**
				Max limit applied values	
21	**Total HQLA**			**794,208**	**714,147**
22	**Total Net Cash Outflows**			**1,005,940**	**993,606**
23	**Liquidity Coverage Ratio (%)**			**78.95%**	**71.87%**

(*) The average of last three months' liquidity coverage ratio calculated by weekly simple averages.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

The Bank's liquidity coverage rates for 2017 are presented in the table below.

		Total Unweighted Value (Average) (*)		Total Weighted Value (Average) (*)	
	Prior Period	**TL+FC**	**FC**	**TL+FC**	**FC**
	High-Quality Liquid Assets				
1	Total high-quality liquid assets (HQLA)			615,186	590,769
	Cash Outflows				
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-
3	Stable deposits	-	-	-	-
4	Less stable deposits	-	-	-	-
5	Unsecured wholesale funding, of which:	-	-	-	-
6	Operational deposits	-	-	-	-
7	Non-operational deposits	-	-	-	-
8	Unsecured funding	6,572,323	6,491,306	2,869,366	2,836,959
9	Secured wholesale funding			-	-
10	Other cash outflows of which:	-	-	-	-
11	Outflows related to derivative exposures and other collateral requirements	20,338	9,246	20,338	9,246
12	Outflows related to restructured financial instruments	-	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	264,508	262,007	105,803	104,802
14	Other revocable off-balance sheet commitments and contractual obligations	-	-	-	-
15	Other irrevocable or conditionally revocable off-balance sheet obligations	5,689,840	5,689,840	284,491	284,491
16	**Total Cash Outflows**			**3,279,998**	**3,325,498**
	Cash Inflows				
17	Secured receivables	-	-	-	-
18	Unsecured receivables	10,777,787	7,959,329	7,240,841	4,800,873
19	Other cash inflows	25,363	7,499	25,362	7,499
20	**Total Cash Inflows**	**10,803,150**	**7,966,828**	**7,266,203**	**4,808,372**
				Max limit applied values	
21	**Total HQLA**			**615,186**	**590,769**
22	**Total Net Cash Outflows**			**821,044**	**809,919**
23	**Liquidity Coverage Ratio (%)**			**74.93%**	**72.94%**

(*) *The average of last three months' liquidity coverage ratio calculated by weekly simple averages.*

With regard of the Liquidity Coverage Ratio, banks disclose the essential issues as follows:

a) Cash inflows and outflows do not have significant fluctuations because the Bank is less complex and cash inflows are higher than cash outflows during the period.

b) The Bank's high quality liquid asset stock primarily consists of cash, the accounts held at CBRT and unencumbered government bonds which are issued by Turkish Treasury.

c) Important funding sources of the Bank are funds from CBRT rediscount loans, syndicated loans, short-term bilateral and trade loans from domestic and overseas banks, medium and long-term funds borrowed from international financial institutions like World Bank, European Investment Bank (EIB), Council of Europe Development Bank (CEB) and Islamic Development Bank (IDB) and funds obtained from capital market transactions by issuing debt securities.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

d) The most important items in derivatives held for hedging purposes are forwards for currency risks and swap transactions within the scope of interest rate risk.

e) The Bank distributes funding sources between CBRT, domestic banks and international development and investment banks carefully and in a balanced manner. The Bank's principle to take first quality collaterals like guarantee letters and aval. To prevent concentration risk the bank monitoring the breakdown of the collaterals taken from banks and made policy limit controls for to not take risks up to 20% of each banks' total cash and non-cash loans.

f) Taking into account the legal and operational liquidity transfer inhibiting factors, the needed funds and the liquidity risk exposure based on the Bank itself, the branches in foreign countries and consolidated partnerships:

None.

g) Taken in the calculation of liquidity coverage ratio but not included in the disclosure template in the second paragraph and the information regarding the other cash inflows and cash outflows items which are thought to be related to the Bank's liquidity profile:

None.

As of 30 June 2018 and 31 December 2017, the table below analyses the assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity dates.

	30 June 2018					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Cash and due from banks	4,169,531	-	-	-	795,846	**4,965,377**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	**-**
Derivative financial instruments	15,998	86	5	557	-	**16,646**
Derivative assets held for risk management	8,347	89,876	183,619	90,349	-	**372,191**
Loans and advances to customers	20,036,766	51,770,950	18,997,002	4,381,857	-	**95,186,575**
Investment securities						
- Financial assets measured at fair value through other comprehensive income	-	-	-	-	23,245	**23,245**
- Financial assets measured at amortised cost	82,002	123,445	81,830	-	-	**287,277**
Property and equipment and intangible assets	-	-	-	-	13,252	**13,252**
Investment property	-	-	-	-	2,189	**2,189**
Other assets	-	-	-	-	1,229,273	**1,229,273**
Total assets	**24,312,644**	**51,984,357**	**19,262,456**	**4,472,763**	**2,063,805**	**102,096,025**
Funds borrowed	14,585,314	46,956,065	11,833,764	5,154,080	-	**78,529,223**
Debt securities in issue	-	3,416,668	6,780,751	4,435,553	-	**14,632,972**
Interbank market deposits	155,816	-	-	-	-	**155,816**
Derivative financial instruments	37,045	3,905	2,558	-	-	**43,508**
Derivative liabilities held for risk management	-	133,559	98,037	294,193	-	**525,789**
Other liabilities	12,179	12,557	-	-	1,039,483	**1,064,189**
Reserve for employee benefits	-	-	-	-	21,185	**21,185**
Total liabilities	**14,790,354**	**50,522,724**	**18,715,110**	**9,883,826**	**1,060,668**	**94,972,682**
Net liquidity gap	**9,522,290**	**1,461,633**	**547,346**	**(5,411,063)**	**1,003,137**	**7,123,343**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

	31 December 2017					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No maturity stated**	**Total**
Cash and due from banks	2,864,354	-	-	-	681,930	**3,546,284**
Trading securities	-	-	-	-	11,710	**11,710**
Derivative financial instruments	3,081	12,269	203	-	-	**15,553**
Derivative assets held for risk management	38,660	94,946	-	-	-	**133,606**
Loans and advances to customers	22,446,729	37,244,587	16,516,704	4,045,597	-	**80,253,617**
Investment securities						
- Available-for-sale	-	-	-	-	30,318	**30,318**
- Held-to-maturity	17,208	142,161	21,092	-	-	**180,461**
Property and equipment and intangible assets	-	-	-	-	12,288	**12,288**
Investment property	-	-	-	-	2,236	**2,236**
Other assets	-	-	-	-	1,056,117	**1,056,117**
Total assets	**25,370,032**	**37,493,963**	**16,537,999**	**4,045,597**	**1,794,599**	**85,242,190**
Funds borrowed	33,208,140	34,160,530	31,596	-	-	**67,400,266**
Debt securities in issue	-	-	8,457,438	1,821,772	-	**10,279,210**
Interbank market deposits	152,000	-	-	-	-	**152,000**
Derivative financial instruments	95,132	4,564	284,655	-	-	**384,351**
Derivative liabilities held for risk management	81,447	106,839	-	-	-	**188,286**
Other liabilities	(40,712)	51,524	(58,520)	289,333	802,450	**1,044,075**
Reserve for employee benefits	-	-	-	-	19,116	**19,116**
Total liabilities	**33,496,007**	**34,323,457**	**8,715,169**	**2,111,105**	**821,566**	**79,467,304**
Net liquidity gap	**(8,125,975)**	**3,170,506**	**7,822,830**	**1,934,492**	**973,033**	**5,774,886**

The undiscounted cash flows of the financial liabilities of the Bank into relevant maturity groupings based on the remaining period at 30 June 2018 and 31 December 2017 to the contractual maturity dates are presented in the tables below:

	30 June 2018						
	Carrying amount	**Demand and up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No maturity stated**	**Total**
Funds borrowed	78,529,223	19,679,653	42,315,810	12,258,942	6,290,787	-	**80,545,192**
Debt securities in issue	14,632,972	166,652	4,048,108	8,754,209	4,758,837	-	**17,727,806**
Interbank money market deposits	155,816	156,055	-	-	-	-	**156,055**
Other financial liabilities[1]	669,566	49,471	149,991	100,594	294,194	75,316	**669,566**
Total financial liabilities	**93,987,577**	**20,051,831**	**46,513,909**	**21,113,745**	**11,343,818**	**75,316**	**99,098,619**

(1) Tax liabilities amounting TL 12,426, funds amounting TL 13 and unearned income accruals and suspend account amounting TL 382,184 are not included in other financial liabilities.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

	31 December 2017						
	Carrying amount	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Funds borrowed	67,400,266	23,861,749	29,366,684	10,190,789	5,355,933	-	**68,775,155**
Debt securities in issue	10,279,210	138,023	405,841	9,840,377	1,988,953	-	**12,373,194**
Interbank money market deposits	152,000	152,179	-	-	-	-	**152,179**
Other financial liabilities[(1)]	781,315	54,420	56,088	226,135	289,334	155,338	**781,315**
Total financial liabilities	**78,612,791**	**24,206,371**	**29,828,613**	**20,257,301**	**7,634,220**	**155,338**	**82,081,843**

(1) Tax liabilities amounting TL 9,962, funds amounting TL 13 and unearned income accruals and suspend account amounting TL 252,785 are not included in other financial liabilities.

The undiscounted cash inflows and outflows of derivative transactions of the Bank at 30 June 2018 and 31 December 2017 are presented in the tables below:

	30 June 2018				
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Derivatives held for trading:					
Foreign exchange derivatives:					
- Outflow	3,147,648	546	-	-	3,148,194
- Inflow	3,131,415	500	-	-	3,131,915
Interest rate derivatives:					
- Outflow	863,658	1,641,961	2,221,449	-	4,727,068
- Inflow	884,526	1,611,698	2,218,717	-	4,714,941
Derivatives held for risk management:					
Foreign exchange derivatives:					
- Outflow	163,834	1,830,857	7,416,883	3,684,409	13,095,983
- Inflow	243,775	2,101,486	8,473,422	3,783,990	14,602,673
Interest rate derivatives:					
- Outflow	68,320	3,201,444	3,225,092	2,356,941	8,851,797
- Inflow	61,248	3,127,474	3,013,976	2,340,248	8,542,946
Total outflow	**4,243,460**	**6,674,808**	**12,863,424**	**6,041,350**	**29,823,042**
Total inflow	**4,320,964**	**6,841,158**	**13,706,115**	**6,124,238**	**30,992,475**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

	31 December 2017				
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Derivatives held for trading:					
Foreign exchange derivatives:					
- Outflow	4,152,541	251,320	4,956,320	2,628,333	11,988,514
- Inflow	4,112,381	301,218	3,870,703	2,023,691	10,307,993
Interest rate derivatives:					
- Outflow	334,524	1,273,681	1,942,957	-	3,551,162
- Inflow	343,938	1,258,786	1,940,402	-	3,543,126
Derivatives held for risk management:					
Foreign exchange derivatives:					
- Outflow	2,446,097	1,566,838	3,331,674	-	7,344,609
- Inflow	2,463,958	1,567,473	2,752,400	-	6,783,831
Interest rate derivatives:					
- Outflow	15,680	342,722	5,041,261	2,007,722	7,407,385
- Inflow	15,218	322,975	4,917,342	1,988,953	7,244,488
Total outflow	**6,948,842**	**3,434,561**	**15,272,212**	**4,636,055**	**30,291,670**
Total inflow	**6,935,495**	**3,450,452**	**13,480,847**	**4,012,644**	**27,879,438**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(g) Derivative financial instruments held for hedging purposes

Starting from 1 January 2013, the Bank has hedged USD 610 million portion of debt securities from total possible fair value effects of changes in fair value arising from Libor interest rates with 5,375% and 5,875% fixed interest rate amounting USD 500 million and USD 750 million, with 5 years and 7 years of maturity, respectively, by using interest rate swaps in 2012 and 2013. Total amount of USD debt securities issued with 5,875% fixed interest rate and maturity of 7 years is USD 750 million and cross currency swap transactions were made by the Bank for the remaining portion of USD 140 million in 2012. Due to changes in fair value arising from movements in market interest rate ,starting from 13 August 2015, USD 120 million of the portion is subjected to fair value hedge and USD 20 million of the portion is subjected to cash flow hedge accounting of the total the remaining amount USD 140 million. The bond, issued in September 2014 with a maturity of seven years and a fixed interest payment rate of 5,000% per six months, is subjected to hedge accounting by cross currency swap transactions in April 2018. In addition, the bond issued in May 2018 with a maturity of six years and a fixed interest payment rate of 6,125% per six months, is subjected to hedge accounting by cross currency swap transactions in May 2018.

Also, changes in fair value of USD debt securities, issued in February 2016 and in October 2016 amounting to USD 500 million, with 5 years and 7 years maturities, respectively, with 5% and 5,375% fixed interest rates, arising from fluctuation in Libor interest rates are hedged by applying fair value hedge accounting with interest rate swap transactions.

Starting from 31 May 2014, the Bank hedged the possible fair value risk of CBRT Rediscount loans amounting to TL 78.504, related to interest rate changes with forward transactions by using fair value hedge accounting. The Bank started fair value hedge accounting in case changes in fair value related to TL interest rates of forward transactions to hedge changes in fair value of Discount-TL loans arising from movements of TL interest rates.

Fair value hedge accounting

Starting from 1 January 2013, the Bank uses "Fair Value Hedge Accounting".

The impact of fair value hedge accounting is summarised below:

		30 June 2018		
Type of hedging instrument	**Hedge item (asset and liability)**	**Nature of hedge risks**	**Net fair value of the Asset**	**Liability**
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	266,171	293,094
Forward Transactions	Originated CBRT-Rediscount TL Loans	Fixed interest rate risk	8,348	-

		31 December 2017		
Type of hedging instrument	**Hedge item (asset and liability)**	**Nature of hedge risks**	**Net fair value of the Asset**	**Liability**
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	12,857	177,042
Forward Transactions	Originated CBRT-Rediscount TL Loans	Fixed interest rate risk	77,064	11,244

The Bank evaluates the effectiveness of the hedge accounting at initial date and at every reporting period. Effectiveness test is performed by using "Dollar off-set method". The Bank continues the hedge accounting if the effectiveness is between 80% and 125%.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(g) Derivative financial instruments held for hedging purposes *(continued)*

***Fair value hedge accounting** (continued)*

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in "Trading gains and losses on derivative financial instruments" account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortized cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the profit and loss accounts.

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the fair value hedge accounting in accordance with IAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way in accordance with the Bank's risk management policies. Effectiveness tests were chosen among methods allowed within the context of IAS 39 in accordance with the Bank's risk management policies. The Bank's assumptions, which used for determining fair values of derivative instruments, were used while calculating fair value of hedged items on the effectiveness tests. The effectiveness tests are performed and effectiveness of risk relations are measured on a monthly basis. The effectiveness tests are performed rewardingly at the beginning of risk relations. If the underlying hedge does not conform to the accounting requirements (out of 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, in the context of the fair value hedge, adjustments on the carrying value of the hedged item is reflected on the on "Gains/(losses) on financial assets measured at fair value through profit or loss" accounts by using straight line method of amortization.

Cash flow hedge accounting

Starting from 13 August 2015, the Bank uses "Cash Flow Hedge Accounting".

The impact of cash flow hedge accounting is summarised below:

		30 June 2018			
Type of hedging instrument	**Hedge item (asset and liability)**	**Nature of hedge risks**	**Fair value of the hedge item**	**Net fair value of the**	
				Asset	**Liability**
Cross currency swap	Fixed interest rate US dollar debt securities	Currency risk	(583)	59,346	-
Cross currency swap	Floating interest rate US Dollar borrowings	Currency risk and interest rate risk	32,326	38,326	232,695

		31 December 2017			
Type of hedging instrument	**Hedge item (asset and liability)**	**Nature of hedge risks**	**Fair value of the hedge item**	**Net fair value of the**	
				Asset	**Liability**
Cross currency swap	Fixed interest rate US dollar debt securities	Currency risk	(1,512)	43,685	-

4 FINANCIAL RISK MANAGEMENT *(continued)*

(g) Derivative financial instruments held for hedging purposes *(continued)*

Cash flow hedge accounting *(continued)*

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the cash flow hedge accounting application in accordance with IAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. In accordance with the Bank's risk management policies. The effectiveness tests are performed on a monthly basis. If the underlying hedge does not conform to the cash flow hedge accounting requirements (out of 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur the net cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

(h) Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the Bank's financial instruments:

(i) Financial assets

The fair values of certain financial assets carried at cost or amortised cost, including cash and due from banks (including receivables from CBRT) are considered to approximate their respective carrying values due to their short-term nature.

The fair value of investment securities has been determined based on bid market prices at reporting dates.

Loans and advances to customers are net of provisions for impairment.

The estimated fair value of loans and advances to customers represents the discounted amount, at current market rates, of future cash flows expected to be received.

The fair value of other financial assets is also considered to approximate their respective carrying values due to their nature.

(ii) Financial liabilities

The fair value of funds borrowed is based on market prices or are based on discounted cash flows using current interest rates prevailing at the reporting date.

The fair value of other financial liabilities is also considered to approximate their respective carrying values due to their nature.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(h) Fair value of financial instruments *(continued)*

(iii) Derivative financial instruments

The fair values of foreign exchange and interest rate swaps have been estimated based on quoted market rates prevailing at the reporting date.

The following table summarises the carrying amounts and fair values of those significant financial assets and liabilities not presented on the Bank's statement of financial position at their fair value.

	30 June 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and due from banks	4,965,377	4,965,377	3,546,284	3,546,284
Investment securities				
- Financial assets measured at fair value through other comprehensive income	5,056 [1]	5,056		
- Financial assets measured at amortized cost	287,277	247,404		
- Held to maturity			180,461	187,182
- Available for sale			5,056[1]	5,056
Loans and advances to customers	95,186,575	96,908,188	80,253,617	84,746,970
Financial liabilities:				
Funds borrowed	78,529,223	82,528,245	67,400,266	70,907,814
Debt securities in issue	14,632,972	13,568,996	10,279,210	10,646,746
Interbank money market deposits	155,816	155,816	152,000	152,000

(1) Garanti Faktoring AŞ shares amounting to TL 18,189 are not included (31 December 2017: TL 25,262).

As of 30 June 2018, fair values of financial assets measured at amortized cost are determined as Level 1 and fair values of loans and advances to customers are determined as Level 2.

As of 31 December 2017, fair values of held to maturity investments are determined as Level 1 and fair values of loans and advances to customers are determined as Level 2.

Fair values of funds borrowed and debt securities are determined as Level 2.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(h) Fair value of financial instruments *(continued)*

The following table summarises the fair values of those financial assets and liabilities presented on the Bank's statement of financial position based on the hierarchy of valuation technique as of 30 June 2018 and 31 December 2017.

30 June 2018	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	-	-	-	-
- Derivatives	-	16,646	-	16,646
Derivative assets held for risk management	-	372,191	-	372,191
Financial assets measured at fair value through other comprehensive income				
- Investment securities - equity[(4)]	18,189	-	-	18,189
Total assets	**18,189**	**388,837**	**-**	**407,026**
Financial liabilities at fair value through profit and loss				
Financial liabilities held for trading				
- Derivatives	-	43,508	-	43,508
Derivative liabilities held for risk management	-	525,789	-	525,789
Total liabilities	**-**	**569,297**	**-**	**569,297**

(1) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity securities and debt instruments. This level includes listed equity securities and debt instruments actively traded on exchanges.
(2) Fair values are calculated with observable input parameters (either directly as prices or indirectly as derived from prices) for derivative transactions. This level includes OTC derivative contracts.
(3) Fair values are calculated with unobservable inputs for equity instruments.
(4) Unlisted equity securities which are accounted with their cost amount to TL 5,056 are excluded.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(h) Fair value of financial instruments *(continued)*

31 December 2017	**Level 1[(1)]**	**Level 2[(2)]**	**Level 3[(3)]**	**Total**
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	11,710	-	-	11,710
- Derivatives	-	15,553	-	15,553
Derivative assets held for risk management	-	133,606	-	133,606
Available-for-sale financial assets				
- Investment securities - equity[(4)]	25,262	-	-	25,262
Total assets	**36,972**	**149,159**	**-**	**186,131**
Financial liabilities at fair value through profit and loss				
Financial liabilities held for trading				
- Derivatives	-	384,351	-	384,351
Derivative liabilities held for risk management	-	188,286	-	188,286
Total liabilities	**-**	**572,637**	**-**	**572,637**

(1) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity securities and debt instruments. This level includes listed equity securities and debt instruments actively traded on exchanges.
(2) Fair values are calculated with observable input parameters (either directly as prices or indirectly as derived from prices) for derivative transactions. This level includes OTC derivative contracts.
(3) Fair values are calculated with unobservable inputs for equity instruments.
(4) Unlisted equity securities which are accounted with their cost amount to TL 5,056 are excluded.

(i) Capital management

The BRSA sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by 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. The Bank regulatory capital is analysed into two tiers:

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

- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions. The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier 1 and Tier 2 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.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(i) Capital management *(continued)*

The Bank's regulatory capital position on at 30 June 2018 and 31 December 2017 were as follows:

	30 June 2018	31 December 2017
Tier I capital	7,111,949	5,767,566
Tier II capital	130,214	130,214
Total regulatory capital	**7,242,163**	**5,897,780**
Amount subject to credit risk	50,983,666	41,727,214
Amount subject to market risk	505,513	551,225
Amount subject to operational risk	1,447,228	1,246,957
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks (%)	**13.68**	**13.55**
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks (%)	**13.44**	**13.25**

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances to customers

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of derivatives

The fair values of financial instruments that are not traded in the organized markets are determined by using valuation techniques. The valuation techniques used in the determination of fair values are reviewed periodically and approved by experienced employees.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

6 CASH AND DUE FROM BANKS

	30 June 2018	31 December 2017
Cash funds:		
Cash on hand	14	26
	14	**26**
Current accounts and demand deposits:		
Central Bank of Republic of Turkey (CBRT)	318	632,166
Foreign banks	2,246,236	1,096,141
	2,246,554	**1,728,307**
Time deposits:		
Central Bank of Republic of Turkey (CBRT)	741,566	986,260
Domestic banks	1,218,214	
	1,959,780	**986,260**
Interbank money market placements	**759,356**	**831,691**
Expected credit loss	**327**	**-**
Total cash and due from banks	**4,965,377**	**3,546,284**

Cash and cash equivalents included in the statements of cash flows for the periods ended 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Cash and due from banks	4,965,377	3,546,284
Less: interest accruals	-	-
Cash and cash equivalents	**4,965,377**	**3,546,284**

Cash and cash equivalents are mainly composed of bank deposits as of 30 June 2018 and 31 December 2017.

7 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets measured at fair value through profit or loss	30 June 2018
Government bonds	-
Total	**-**

Trading Securities	31 December 2017
Government bonds	11,710
Total	**11,710**

As of 30 June 2018, the Bank does not have any securities subject to repurchase transactions (31 December 2017: TL 1,715).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

8 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank utilises the following derivative instruments:

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of principal as well. The Bank's "credit risks" represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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

The fair values of derivative instruments held as of 30 June 2018 and 31 December 2017 are set out in the following table:

	30 June 2018		31 December 2017	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
Interest rate and currency swaps purchases and sales	8,990	-	1,307	-
Forward purchases and sales	7,587	-	5,250	-
Foreign currency swaps purchases and sales	-	(28,396)	-	(22,300)
Cross currency and basis swaps purchases and sales	-	(15,042)	8,996	(362,051)
Option purchases and sales	69	(70)	-	-
Total derivative assets/(liabilities)	**16,646**	**(43,508)**	**15,553**	**(384,351)**

Even though certain derivative transactions, while providing effective economic hedges under the Bank's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39 which is permitted to be applied in IFRS 9 and are therefore treated as derivatives held for trading. Hedge accounting is explained in detail in Note 4.

The notional amounts of derivative transactions are explained in detail in Note 25.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

9 LOANS AND ADVANCES TO CUSTOMERS

The Bank follows loans and advances to customers under one class as corporate loans; the classifications in the table below mainly refer to lending programs of the Bank to corporate customers;

	30 June 2018	31 December 2017
Short-term		
Discount loans	49,595,106	42,428,369
Financial institutions	6,834,743	5,792,630
Export guaranteed loans	1,807,387	1,275,075
Specialised loans	326,293	270,743
Foreign country loans (political risks)	427	5,893
Other guaranteed loans	170	112
	58,564,126	**49,772,822**
Medium and long-term		
Export guaranteed loans	19,172,824	16,099,659
Export guaranteed investment loans	9,980,212	8,509,305
Financial institutions	3,582,062	2,645,095
Foreign country loans (political risks)	2,821,356	2,288,635
Specialised loans	364,480	365,797
Other	113,341	109,572
	36,034,275	**30,018,064**
Performing loans	**94,598,401**	**79,790,885**
Loans under close monitoring	603,073	489,212
Impaired loans and advances	320,965	294,231
Gross loans and advances to customers	**95,522,439**	**80,574,328**
Expected credit losses- Stage 1	(17,696)	
Expected credit losses- Stage 2	(709)	
Expected credit losses- Stage 3	(317,459)	
Allowance for loan losses		(320,711)
Net loans and advances to customers	**95,186,575**	**80,253,617**

The Bank provides impairment provision for non-performing loans amounting to TL 320,459 (31 December 2017: TL 294,231) comprising 0.34% (31 December 2017: 0.37%) of the total loans outstanding at 30 June 2018. The Bank also provided an additional impairment provision amounting to TL 14,899 (31 December 2017: TL 26,480) for other components of the loan portfolio to cover the incurred of loss present in the lending relationship but not yet identified with a specific loan.

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

9 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

Movements in the provision for impairment losses for the periods ended 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Balance at the beginning of the period	**320,711**	**272,766**
Impact of adopting IFRS 9	(27,259)	-
Recoveries and reversals	(14,480)	(1,054)
Provision for the period	56,892	48,999
Balance at the end of the period	**335,864**	**320,711**

Loans and advances to the public and private sectors are as follows:

	30 June 2018	31 December 2017
Private sector	92,078,861	75,480,355
Public sector	3,107,714	4,773,262
	95,186,575	**80,253,617**

10 INVESTMENT SECURITIES

(a) Financial assets measured at fair value through other comprehensive income:

	30 June 2018
Financial assets measured at fair value through other comprehensive income	
Equity securities	
- Listed	18,189
- Unlisted	5,056
Total	**23,245**

Available-for-sale securities	31 December 2017
Equity securities	
- Listed	25,262
- Unlisted	5,056
Total	**30,318**

There are no securities pledged under repurchase agreements or pledged as collateral with financial institutions.

As of 30 June 2018, unrealised gain and losses arising from changes in the fair value of securities classified as financial assets measured at fair value through other comprehensive income are recognised in other comprehensive income unless there is objective evidence that the asset is impaired in which case they are charged to the statement of profit or loss.

As of 31 December 2017, unrealised gain and losses arising from changes in the fair value of securities classified as available-for-sale securities are recognised in other comprehensive income unless there is objective evidence that the asset is impaired in which case they are charged to the statement of profit or loss.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

10 INVESTMENT SECURITIES *(continued)*

(a) Financial assets measured at fair value through other comprehensive income *(continued)*:

The breakdown of equity securities classified as financial assets measured at fair value through other comprehensive income at 30 June 2018 are as follows:

Equity securities	Share % 30 June 2018	Carrying amount 30 June 2018	Business
Garanti Faktoring AŞ	9.78	18,189	Factoring
Kredi Garanti Fonu AŞ	1.54	4,896	Financial services
Borsa İstanbul AŞ	-	160	Financial services
		23,245	

The breakdown of equity securities classified as available-for-sale securities at 31 December 2017 are as follows:

Equity securities	Share % 31 December 2017	Carrying amount 31 December 2017	Business
Garanti Faktoring AŞ	9.78	25,262	Factoring
Kredi Garanti Fonu AŞ	1.54	4,896	Financial services
Borsa İstanbul AŞ	-	160	Financial services
		30,318	

(b) Financial assets measured at amortised cost:

Financial assets measured at amortised cost	30 June 2018
Debt securities	
- Government bonds	287,277
Total	**287,277**

Held-to-maturity securities	31 December 2017
Debt securities	
- Government bonds	180,461
Total	**180,461**

As of 30 June 2018, government bonds and treasury bills amounting to TL 20,555 (31 December 2017: TL 27,383) have been pledged as collateral with the CBRT and Borsa İstanbul AŞ-Settlement and Custody Bank.

The movement of securities classified as financial assets measured at amortised costs as at 30 June 2018 are as follows:

	30 June 2018
Balance at 1 January	**180,461**
Impact of adopting IFRS 9	(13)
Purchases	144,311
Redemptions	(52,198)
Interest income accruals	14,726
Expected credit loss	(10)
Total financial assets measured at amortised costs at the end of the period	**287,277**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

10 INVESTMENT SECURITIES *(continued)*

The movement of securities classified as held-to-maturity securities as at 31 December 2017 are as follows:

	31 December 2017
Balance at 1 January	**98,549**
Purchases	238,756
Redemptions	(164,403)
Interest income accruals	7,559
Total held-to-maturity securities at the end of the period	**180,461**

11 PROPERTY AND EQUIPMENT

	Buildings	Leased Assets	Vehicles	Other Tangible Assets	Leasehold Improvements	Total
Cost						
Opening balance, 1 January 2017	1,570	127	3,379	12,023	14,257	31,356
Additions	-	-	-	1,729	-	1,729
Disposals	-	-	-	-	-	-
Transfers	(462)	-	-	-	-	(462)
Closing balance, 31 December 2017	**1,108**	**127**	**3,379**	**13,752**	**14,257**	**32,623**
Accumulated depreciation:						
Opening balance, 1 January 2017	925	127	2,478	7,546	12,071	23,147
Additions	27	-	360	1,413	1,724	3,524
Disposals	-	-	-	-	-	-
Transfers	(283)	-	-	-	-	(283)
Closing balance, 31 December 2017	**669**	**127**	**2,838**	**8,959**	**13,795**	**26,388**
Cost						
Opening balance, 1 January 2018	1,108	127	3,379	13,752	14,257	32,623
Additions	-	-	-	1,870	-	1,870
Disposals	-	-	-	(25)	-	(25)
Transfers	222	-	-	-	-	222
Closing balance, 30 June 2018	**1,330**	**127**	**3,379**	**15,597**	**14,257**	**34,690**
Accumulated depreciation:						
Opening balance, 1 January 2018	669	127	2,838	8,959	13,795	26,388
Additions	12	-	119	844	462	1,437
Disposals	-	-	-	(25)	-	(25)
Transfers	135	-	-	-	-	135
Closing balance, 30 June 2018	**816**	**127**	**2,957**	**9,778**	**14,257**	**27,935**
As at 31 December 2017 net carrying value	**439**	**-**	**541**	**4,793**	**462**	**6,235**
As at 30 June 2018, net carrying value	**514**	**-**	**422**	**5,819**	**-**	**6,755**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

12 INTANGIBLE ASSETS

	Intangible assets
Cost	
Opening balance, 1 January 2017	6,106
Additions	4,382
Disposals	-
Closing balance, 31 December 2017	**10,488**
Accumulated amortisation:	
Opening balance, 1 January 2017	(3,349)
Additions	(1,086)
Disposals	-
Closing balance, 31 December 2017	**(4,435)**
Cost	
Opening balance, 1 January 2018	10,488
Additions	1,073
Disposals	-
Closing balance, 30 June 2018	**11,561**
Accumulated amortisation:	
Opening balance, 1 January 2018	4,435
Additions	629
Disposals	-
Closing balance, 30 June 2018	**5,064**
As at 31 December 2017, net carrying value	**6,053**
As at 30 June 2018, net carrying value	**6,497**

13 INVESTMENT PROPERTY

As of 30 June 2018, The Bank has net investment property amounting to TL 2,189 (31 December 2017: TL 2,236).

Istanbul service building which is previously accounted as tangible asset is classified to investment property account in accordance with IAS 40 Investment Property after the building is leased to Investment Support and Promotion Agency of Turkey.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

14 OTHER ASSETS

	30 June 2018	31 December 2017
Financial assets		
Guarantees given	680,925	501,458
Upfront fees paid	490,584	498,214
Notes receivable	21,019	25,050
Receivables from Reassurance Companies	14,229	6,812
Receivables from banks	6	6
Other	23,911	24,583
	1,230,674	**1,056,123**
Expected credit losses	(1,401)	
Provision for impairment on other assets		(6)
	1,229,273	**1,056,117**

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS

	30 June 2018	31 December 2017
Interbank money market deposits – TL	**155,816**	**152,000**
Domestic banks	51,362,299	44,450,903
Foreign banks	27,166,924	22,949,363
Funds borrowed	**78,529,223**	**67,400,266**
Funds borrowed and interbank money market deposits total	**78,685,039**	**67,552,266**

Average interest rate for interbank money market deposits is 17.83% (31 December 2017: 12.30%) and the maturity date of such deposits is 6 July 2018 (31 December 2017: 2 January 2018).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS *(continued)*

The breakdown of funds borrowed as of 30 June 2018 and 31 December 2017 is as follows:

30 June 2018	**Interest rate**	**Original currency amount** *(thousands)*	**Original currency**	**TL**	**Maturity date** *(year)*
Due to Central Bank	(LIBOR/EURIBOR + %0)			**47,988,824**	
CBRT Loan		5,499,411	USD	25,066,314	(1)
CBRT Loan		4,300,069	EUR	22,777,036	(1)
CBRT Loan		24,343	GBP	145,474	(1)
Due to IFIs	(LIBOR/EURIBOR + %0,01 - %1,859)			**7,569,828**	
World Bank (EFIL) Loans		166,832	USD	760,421	01.03.2038
World Bank (EFIL) Loans		44,412	EUR	235,247	01.03.2038
World Bank (LTEF) Loans		281,341	USD	1,282,352	15.07.2038
European Investment Bank		84,003	USD	382,887	16.01.2024-29.07.2024
European Investment Bank		522,540	EUR	2,767,843	17.12.2021-29.07.2024
Council of Europe Development Bank		170,000	EUR	900,473	26.10.2022-8.02.2024
Islamic Development Bank		272,182	USD	1,240,605	14.04.2026-25.10.2027
Due to Commercial Banks	(LIBOR/EURIBOR + %0,8 - %2,76)			**22,970,571**	
ING DIBA		96,184	EUR	509,476	11.11.2020
ICBC London		15,992	USD	72,891	06.07.2018
ICBC Turkey A.Ş.		250,934	USD	1,143,758	22.05.2020-04.06.2020
Citibank Dublin		45,308	USD	206,515	16.07.2018-28.01.2019
Garanti International		30,054	EUR	159,195	17.08.2018
Mizuho Corporate Bank Ltd		200,470	USD	913,744	11.09.2018-22.05.2019
Vida Finance Plc		23,812,457	JPY	980,502	17.06.2019
HSBC		94,687	USD	431,582	17.09.2018-13.05.2019
Sumitomo Mitsui Banking Corporation Dubai		43,578	USD	198,630	25.10.2018-24.04.2019
MUFG Bank Turkey		100,159	EUR	530,534	13.11.2018
MUFG Bank London		50,024	USD	228,010	27.11.2018-22.02.2019
Intesa Sanpaolo SPA, Istanbul Branch		100,171	EUR	530,598	13.05.2019
Standard Chartered Bank		100,158	USD	456,519	31.05.2019-17.06.2019
First Abu Dhabi Bank		30,012	EUR	158,971	11.06.2019
Abu Dhabi Commercial Bank		50,027	USD	228,021	20.06.2019
China Development Bank		200,101	USD	912,060	18.09.2020
ING European Financial Services		200,536	EUR	1,062,217	11.11.2020
Syndicated loan with MIGA Guarantee		378,061	EUR	2,002,551	28.03.2025-6.11.2026
Syndicated loan with MIGA Guarantee		702,284	USD	3,201,012	28.03.2025-6.11.2026
Syndicated loan		189,924	USD	865,673	27.07.2018-3.04.2020
Syndicated loan		1,227,470	EUR	6,501,787	27.07.2018-30.06.2020
Syndicated Loan Coordinated by ITFC		367,776	USD	1,676,325	10.12.2018
Total funds borrowed		**17,228,877**(2)		**78,529,223**	

(1) CBRT loans are rediscount loans extended by CBRT, having wide range of maturity dates.

(2) Balance is denominated by USD.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS *(continued)*

31 December 2017	Interest rate	Original currency amount *(thousands)*	Original currency	TL	Maturity date *(year)*
Due to Central Bank	(LIBOR/EURIBOR + %0)			**42,024,185**	
CBRT Loan		11,132,234	USD	42,024,185	(1)
Due to IFIs	(LIBOR/EURIBOR + %0,01 - %1,55)			**6,491,819**	
World Bank (EFIL) Loans		319,599	EUR	1,442,605	1.3.2038
European Investment Bank		623,654	EUR	2,815,049	6.8.2018-11.11.2020
Islamic Development Bank		272,179	USD	1,027,476	14.4.2026-25.10.2027
China Development Bank		200,082	USD	755,309	18.9.2020
Council of Europe Development B		100,000	EUR	451,380	16.5.2023- 26.10.2022
Due to Commercial Banks	(LIBOR/EURIBOR/TIBOR + %1,03 - %2,97)			**18,852,666**	
ICBC Turkey A.Ş.		250,820	USD	946,845	22.5.2020- 4.6.2020
ING European Financial Services		200,503	EUR	905,030	11.11.2020
Vida Finance		238,124	JPY	797,979	17.6.2019
Mizuho Corporate Bank Ltd		169,930	USD	641,485	11.9.2018-21.6.2018
ING DIBA		101,842	EUR	459,693	4.12.2026
Bank of Tokyo Mitsubishi Turkey		100,156	EUR	452,084	13.11.2018
HSBC London		86,706	USD	327,315	15.2.2018- 1.11.2018
Standard Chartered Bank		100,364	USD	378,875	8.5.2018-25.5.2018
Citibank Dublin		50,143	USD	189,290	4.6.2018-28.3.2025
Abu Dhabi Commercial Bank		50,011	USD	188,792	20.6.2019
Bank of Tokyo Mitsubishi London		37,712	USD	142,364	27.11.2018
Garanti International		30,052	EUR	135,648	17.8.2018
Doha Bank		25,027	USD	94,477	13.3.2018
Emirates NBD		20,024	EUR	90,385	31.5.2018
ABC International		20,016	EUR	90,349	7.3.2018-27.3.2018
Sumitomo Mitsui Banking Corporation Dubai		20,002	USD	75,506	25.10.2018
ICBC London		15,736	USD	59,402	9.7.2018
Syndicated Loans				12,877,147	
Others	LIBOR+%0.5			**31,596**	
Subordinated loan		8,370	USD	31,596	15.4.2018
Total funds borrowed		**17,854,428(2)**		**67,400,266**	

(1) CBRT loans are rediscount loans extended by CBRT, having wide range of maturity dates.

(2) Balance is denominated by USD.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS *(continued)*

The repayment of the funds borrowed were as follows during the first half of 2018:

	FX Type	Original Repayment Amount	Date
European Investment Bank	USD	1.914.559	16 January 2018
European Investment Bank	USD	2.840.906	29 January 2018
European Investment Bank	EUR	2.375.000	29 January 2018
European Investment Bank	USD	1.903.235	12 February 2018
HSBC London	USD	19.510.820	15 February 2018
Citibank	USD	20.000.000	16 February 2018
World Bank	USD	4.148.051	01 March 2018
World Bank	EUR	1.109.760	01 March 2018
ABC International Bank	EUR	10.000.000	07 March 2018
International Islamic Trade Finance Corporation (ITFC)	USD	436.000.000	09 March 2018
Doha Bank	USD	24.990.000	13 March 2018
Syndicated loans	USD	25.000.000	21 March 2018
Syndicated loans	EUR	242.500.000	21 March 2018
ABC International Bank	EUR	10.000.000	27 March 2018
Syndicated loans with MIGA Guarantee	EUR	5.555.556	28 March 2018
Syndicated loans with MIGA Guarantee	USD	10.416.667	28 March 2018
Syndicated loans	EUR	370.500.000	29 March 2018
Syndicated loans	USD	31.000.000	29 March 2018
European Investment Bank	EUR	1.470.588	03 April 2018
Subordinated Loans	USD	8.341.000	13 April 2018
Council of Europe Development Bank	EUR	5.000.000	26 April 2018
Standard Chartered Bank	USD	50.000.000	8 May 2018
Mizuho Bank	EUR	40.000.000	22 May 2018
Standard Chartered Bank	USD	50.000.000	25 May 2018
Emirates NBD	EUR	20.000.000	31 May 2018
Citibank	USD	30.000.000	04 June 2018
ING Di-Ba	EUR	5.652.632	04 June 2018
European Investment Bank	EUR	1.470.588	18 June 2018
European Investment Bank	EUR	10.000.000	19 June 2018
European Investment Bank	EUR	5.000.000	20 June 2018
Mizuho Bank	EUR	50.000.000	21 June 2018
European Investment Bank	EUR	5.000.000	29 June 2018

Debt securities in issue

Information regarding securities issued	30 June 2018	31 December 2017
Securities Issued	14,813,500	10,381,250
Discount on Issuance of Securities (-)	407,391	237,044
Bond Interest Accrual	226,863	135,004
Total	**14,632,972**	**10,279,210**

In April 2012, the Bank issued bonds amounting USD 500 million (TL 2,279,000). The bond is subject to annual fixed interest payment of 5.875% every six months and the total maturity is seven years.

In October 2012, the Bank issued bonds amounting USD 250 million (TL 1,139,500). The bond is subject to annual fixed interest payment of 5.875% every six months and the total maturity is seven years.

In September 2014, the Bank issued bonds amounting USD 500 million (TL 2,279,000). The bond is subject to annual fixed interest payment of 5.000% every six months and the total maturity is seven years.

In February 2016, the Bank issued bonds amounting USD 500 million (TL 2,279,000). The bond is subject to annual fixed interest payment of 5.375% every six months and the total maturity is five years.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS *(continued)*

In October 2016, the Bank issued bonds amounting USD 500 million (TL 2,279,000). The bond is subject to annual fixed interest payment of 5.375% every six months and the total maturity is seven years.

In September 2017, the Bank issued bonds amounting USD 500 million (TL 2,279,000). The bond is subject to annual fixed interest payment of 4.250% every six months and the total maturity is five years.

In May 2018, the Bank issued bonds amounting USD 500 million (TL 2,279,000). The bond is subject to annual fixed interest payment of 6.125% every six months and the total maturity is six years.

16 TAXATION

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3rd Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states "The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520", the exemption from Corporation Tax continues. Accordingly, current and deferred taxes are not recognised in these financial statements.

17 OTHER LIABILITIES AND PROVISIONS

The principal components of other liabilities are as follows:

	30 June 2018	31 December 2017
Financial liabilities		
Guarantees received(1)	791,242	601,865
Positive price difference on bonds issued(3)	13,040	237,044
Tax liability	12,426	9,962
Funds	13	13
Other	67,490	50,574
Non-financial liabilities		
Insurance technical provisions	86,826	65,097
Dividend pay liabilities	23,955	27,404
Vacation pay liability(2)	16,697	13,733
BRSA expense provision	20,497	12,806
Other	32,003	25,577
	1,064,189	**1,044,075**

(1) Guarantees received refers to cash guarantees obtained in relation to Rediscount Credits, which have increased in line with the increase in the amount of Rediscount Credits.

(2) TL 2,964 of vacation pay liability provision is provided during 2018 (31 December 2017: TL 1,700).

(3) In addition to the bond issuance transactions, positive price differences have come up. The transaction has been divided into instalments until the maturity date according to the principle of periodicity in accounting and the sum corresponding to each month is accounted for by reducing expense rediscount.

The movements for insurance technical provision are as follows:

	30 June 2018	31 December 2017
Balance at the beginning of the period	65,097	38,331
Impact of adopting IFRS 9	4,648	
Paid claims	562	3,272
Increase	16,519	23,494
Total	**86,826**	**65,097**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

18 RETIREMENT BENEFIT OBLIGATIONS

As a result of IAS 19 (2011), the Bank started to recognise all actuarial gains and losses immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

As of 31 December 2017 actuarial gains/losses, calculated as TL 82 in relation to the reserve for employee termination benefits, are shown under shareholders' equity and as TL 2,069 in relation to the current service cost and interest expense, are recognised in other comprehensive income in accordance with the change in IAS 19 (2011).

IAS 19 (2011) "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 30 June 2018 and 31 December 2017.

	30 June 2018	**31 December 2017**
Discount rate (%)	1.89	1.89
Rate to estimate the probability of retirement (%)	0.98	0.98

Movement in the reserve for employment termination benefits for the period ended 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	**31 December 2017**
1 January	19,116	17,050
Current service cost	981	1,768
Interest expense	1,088	1,833
Actuarial losses	-	82
Payments during the period	-	(1,617)
Total	**21,185**	**19,116**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

19 SHARE CAPITAL

The historical paid in share capital of the Bank is TL 6,350,000 (31 December 2017: TL 4,800,000) and consists of 6,35 billion (31 December 2017: 4,8 billion) authorised shares with a nominal value of TL 1 each. In 2017, the Bank has increased capital by TL 1,100,000 to be covered by internal resources within the framework of the registered share capital system that was implemented in 2017. The transaction has been announced in the Turkish Trade Registry Gazette dated 28 August 2017 and numbered 9398.

The Bank has decided to use the capital stock system that is registered in the Bank in the extraordinary general meeting that took place on 27 January 2017. The decision has been submitted to the trade register and has been published on Turkey Trade Registry Gazette on 30 January 2017, Numbered 9252.

	30 June 2018	31 December 2017(*)
Share capital - historical cost	6,350,000	4,800,000
Adjustment to share capital	38,091	38,091
Total paid in share capital	**6,388,091**	**4,838,091**

(*) See Note 2.7.

The Bank is fully owned by the Turkish Treasury.

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at 31 December 2005 after elimination of the accumulated deficit. There are no other reserves at 30 June 2018 (31 December 2017: None).

The legal reserves amounting to TL 379,260 (31 December 2017: TL 349,896) consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity’s share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity’s share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code and in accordance with the Articles of Association of the Bank, the Bank is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of 10% of the distribution of second dividend, in excess of the first legal reserve, appropriated at a rate of 5% and first dividend, appropriated at a rate of 8%.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until the investment is derecognised or impaired.

As at 30 June 2018, such gains / (losses) recognised under equity in fair value reserves amounted to TL 14,081 (31 December 2017: TL 21,154).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

20 NET INTEREST INCOME

	30 June 2018	30 June 2017
Interest income on:		
Interest on loans and advances to customers	1,255,725	933,727
Interest on deposits with banks	64,933	25,365
Interest on financial assets measured at amortized cost	14,750	
Interest on held to maturity investments		6,866
Interest on interbank money market placements	53,775	6,256
Interest on financial assets measured at fair value through profit or loss	47	
Interest on trading financial assets		661
Other interest income	1,197	401
Total interest income	**1,390,427**	**973,276**
Interest expense on:		
Interest on funds borrowed	(583,583)	(303,194)
Interest on debt securities in issue	(333,540)	(219,410)
Other interest expenses	(12,082)	(4,375)
Total interest expense	**(929,205)**	**(526,979)**
Net interest income	**461,222**	**446,297**

21 FOREIGN EXCHANGE GAINS AND LOSSES

	30 June 2018	30 June 2017
Foreign exchange gain	16,800,932	9,892,328
Foreign exchange losses	(17,555,528)	(9,446,641)
Net foreign exchange gains/(losses)	**(754,596)**	**445,687**

22 GAINS AND LOSSES ON FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018
Derivative income (*)	1,358,002
Derivative expenses (*)	(637,018)
Trading income	1
Trading expenses	(70)
Total	**720,915**

(*) Derivative income/expense include fair value hedge valuation differences amounting TL 584,865.

	30 June 2017
Derivative income (*)	139,705
Derivative expenses (*)	(663,176)
Trading income	3
Trading expenses	(11)
Total	**(523,479)**

(*) Derivative income/expense include fair value hedge valuation differences amounting TL 126,075.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

23 OTHER OPERATING INCOME

	30 June 2018	30 June 2017
Insurance premium income	104,488	78,507
Commission from reinsurance companies	19,615	13,662
Other	5,441	7,011
Total	**129,544**	**99,180**

24 OPERATING EXPENSES

	30 June 2018	30 June 2017
Staff costs	79,231	66,227
Premiums paid to reinsurance companies	56,098	39,215
Taxes and duties expenses	8,368	3,735
BRSA contribution expense	7,691	5,302
Research expenses	7,470	5,570
KOSGEB fee(1)	6,545	5,549
Rent expenses	3,233	2,892
Depreciation and amortisation charges	2,116	2,696
Employment termination benefits and unused vacation	2,069	2,705
Vehicle expenses	-	1,208
Other	19,635	26,090
Total	**192,456**	**161,189**

(1) As the Bank's more than 50% of the paid-in share capital is owned by the government entities, the Bank is obliged to pay annual fee at a rate of 2% of the corporate tax base of the Bank to Small and Medium Industries Development Organisation ("KOSGEB") in accordance with the establishment law of KOSGEB.

25 COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the balance sheets, including letters of guarantee, other guarantees and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

Legal proceedings

30 June 2018, there are legal proceedings outstanding against the Bank amounting to EUR 31 thousand and TL 11 thousand. In addition, there are legal proceedings outstanding filed by the Bank. These legal proceedings amount to TL 217 thousand, USD 42 thousand and EUR 10 thousand.

The Bank has not provided a provision for these legal proceedings, since possible outflow of resources embodying economic benefits to settle these contingent liabilities will be immaterial. A number of the outstanding litigation cases in Turkish courts relate to employee bonus payments.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

25 COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

Commitments under derivative instruments:

The breakdown of swap transactions at 30 June 2018 and 31 December 2017 is as follows:

		30 June 2018		31 December 2017	
	Currency	Foreign currency amount	TL	Foreign currency amount	TL
Transaction type					
Interest rate swap purchases	USD	2,594,467,091	11,825,581	2.,495,616,000	9,610,451
Foreign currency swap purchases	USD	517,010,970	2,356,536	1,052,818,000	3,974,389
	TL	52,387,000	660,910	-	-
Foreign currency forward purchases	USD	33,090,171	150,825	1,070,123,000	4,039,717
	TL	52,387,000	52,387	127,100,000	127,100
	EUR	400,045	2,119	-	-
Cross currency swaps purchases	USD	2,452,369,680	11,177,901	1,461,991,000	5,519,018
	JPY	23,800,004,857	979,989	23,800,000,000	797,562
Option purchases	TL	1,671,000	1,671	-	-
	EUR	299,987	1,589	-	-
Total purchases			**27,209,508**		**24,068,237**
Interest rate swap sales	USD	2,594,467,091	11,825,581	2,495,616,000	9,610,451
Foreign currency swap sales	EUR	431,499,934	2,285,612	706,000,000	3,186,744
	GBP	9,000,000	53,784	10,750,000	54,676
	JPY	264,887,313	10,907	151,807,000	5,087
	TL	683,500,000	683,500	762,272,000	762,272
Foreign currency forward sales	TL	137,466,000	137,466	4,081,610,000	4,081,610
	USD	12,620,009	57,522	31,110,000	117,440
	EUR	400,045	2,119	-	-
Cross currency swaps sales	TL	36,220,000	36,220	36,220,000	36,220
	EUR	2,272,627,197	12,037,879	1,451,320,000	6,551,000
Option sales	TL	1,671,000	1,671	-	-
	EUR	299,987	1,589	-	-
Total sales			**27,133,850**		**24,405,500**
Total			**54,343,358**		**48,473,737**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

25 COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

Maturity analysis of swap and forward transactions are as follows:

	30 June 2018				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Interest rate swap purchases	842,607	4,297,602	4,406,372	2,279,000	11,825,581
Foreign currency swap purchases	3,017,446	-	-	-	3,017,446
Forward foreign currency purchases	204,831	500	-	-	205,331
Cross currency swaps purchases	-	1,618,109	5,469,600	5,070,181	12,157,890
Option purchases	3,260	-	-	-	3,260
Total purchases	**4,068,144**	**5,916,211**	**9,875,972**	**7,349,181**	**27,209,508**
Interest rate swap sales	842,607	4,297,603	4,406,371	2,279,000	11,825,581
Foreign currency swap sales	3,033,803	-	-	-	3,033,803
Forward foreign currency sales	196,561	546	-	-	197,107
Cross currency swaps sales	-	1,629,125	5,279,099	5,165,875	12,074,099
Option sales	3,260	-	-	-	3,260
Total sales	**4,076,231**	**5,927,274**	**9,685,470**	**7,444,875**	**27,133,850**

	31 December 2017				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Interest rate swap purchases	333,766	1,224,611	6,164,574	1,887,500	9,610,451
Foreign currency swap purchases	3,974,389	-	-	-	3,974,389
Forward foreign currency purchases	2,518,385	1,648,432	-	-	4,166,817
Cross currency swaps purchases	-	-	3,968,562	2,348,018	6,316,580
Option purchases	-	-	-	-	-
Total purchases	**6,826,540**	**2,873,043**	**10,133,136**	**4,235,518**	**24,068,237**
Interest rate swap sales	333,766	1,224,611	6,164,574	1,887,500	9,610,451
Foreign currency swap sales	4,008,779	-	-	-	4,008,779
Forward foreign currency sales	2,522,776	1,676,274	-	-	4,199,050
Cross currency swaps sales	-	-	4,039,000	2,548,220	6,587,220
Option sales	-	-	-	-	-
Total sales	**6,865,321**	**2,900,885**	**10,203,574**	**4,435,720**	**24,405,500**

The above tables summarise the Bank's derivative transactions that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date, in respective currencies. Accordingly, the difference between the "sale" and "purchase" transactions represents the net exposure of the Bank with respect to commitments arising from these transactions.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

25 COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

Credit related commitments:

Letters of guarantee, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under these guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the outstanding credit related commitments of the Bank at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
Financial guarantees		
Other guarantees		
-Foreign currency (Note 4)	7,721,203	6,241,263
Total financial guarantees	**7,721,203**	**6,241,263**

The Bank provides cover for Turkish exporters, against credit risk by offering variety of programs.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

26 SEGMENT ANALYSIS

The main segments of the Bank are corporate banking and investment banking. Investment banking includes the treasury operations of the Bank whereas corporate banking includes all operations other than treasury (mainly all of the credit operations), which is reported in manner consistent with the internal reporting provided to the chief operating decision maker, the Assistant General Manager of Finance. The analysis is as follows:

30 June 2018	Corporate banking	Investment banking	Unallocated	Total
Segment revenue	1,270,895	1,493,173	129,544	2,893,612
Segment expenses	(600,853)	(982,709)	(1,003,944)	(2,587,506)
Net profit	**670,042**	**510,464**	**(874,400)**	**306,106**
Interest income	1,255,725	134,702	-	1,390,427
Interest expense	(583,583)	(345,622)	-	(929,205)
Depreciation and amortisation	-	-	(2,116)	(2,116)
Impairment charges on loans	-	(56,892)	-	(56,892)

30 June 2018	Corporate banking	Investment banking	Unallocated	Total
Total segment assets	95,176,332	4,923,188	1,996,505	102,096,025
Segment liabilities	78,529,223	15,358,085	1,085,374	94,972,682
Equity	-	-	7,123,343	7,123,343
Total liabilities and equity	**78,529,223**	**15,358,085**	**8,208,717**	**102,096,025**

30 June 2017	Corporate banking	Investment banking	Unallocated	Total
Segment revenue	943,747	179,828	405,159	1,528,734
Segment expenses	(312,502)	(886,969)	(57,366)	(1,256,837)
Net profit	**631,245**	**(707,141)**	**347,793**	**271,897**
Interest income	933,727	39,549	-	973,276
Interest expense	(303,195)	(223,784)	-	(526,979)
Depreciation and amortisation	-	-	(2,696)	(2,696)
Impairment charges on loans	-	(35,883)	-	(35,883)

31 December 2017	Corporate banking	Investment banking	Unallocated	Total
Total segment assets	**80,138,105**	**3,285,740**	**1,818,345**	**85,242,190**
Segment liabilities	67,400,266	11,003,847	1,063,191	79,467,304
Equity	-	-	5,774,886	5,774,886
Total liabilities and equity	**67,400,266**	**11,003,847**	**6,838,077**	**85,242,190**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

26 SEGMENT ANALYSIS *(continued)*

Reconciliation of segment results of operations to:

30 June 2018	Corporate banking	Investment banking	Unallocated	Total
Interest income	1,255,725	134,702	-	1,390,427
Fee and commissions income	15,170	469	-	15,639
Gains on financial instruments classified as held for trading, net	-	1,358,002	-	1,358,002
Other operating income	-	-	129,544	129,544
Total segment revenue	**1,270,895**	**1,493,173**	**129,544**	**2,893,612**

30 June 2018	Corporate banking	Investment banking	Unallocated	Total
Interest expense	(583,583)	(345,622)	-	(929,205)
Fee and commissions expense	(17,270)	-	-	(17,270)
Impairment charges on loans	-	-	(56,892)	(56,892)
Losses on financial instruments classified as held for trading, net	-	(637,087)	-	(637,087)
Foreign exchange losses	-	-	(754,596)	(754,596)
Other operating expenses	-	-	(192,456)	(192,456)
Total segment expense	**(600,853)**	**(982,709)**	**(1,003,944)**	**(2,587,506)**

30 June 2017	Corporate banking	Investment banking	Unallocated	Total
Interest income	933,727	39,549	-	973,276
Fee and commissions income	10,591	-	-	10,591
Foreign exchange gain	-	-	445,687	445,687
Other operating income	99,180	-	-	99,180
Total segment revenue	**1,043,498**	**39,549**	**445,687**	**1,528,734**

30 June 2017	Corporate banking	Investment banking	Unallocated	Total
Interest expense	(303,195)	(223,784)	-	(526,979)
Fee and commissions expense	-	(9,307)	-	(9,307)
Impairment charges on loans	-	(35,883)	-	(35,883)
Losses on financial instruments classified as held for trading, net	-	(523,479)	-	(523,479)
Other operating expenses	-	-	(161,189)	(161,189)
Total segment expense	**(303,195)**	**(792,453)**	**(161,189)**	**(1,256,837)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

27 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions. For the purpose of this financial information the shareholders of the Bank together with state-controlled entities in Turkey are considered and referred to as related parties. Other related parties refer to entities controlled, jointly controlled or having significance influence by the Turkish Government.

A number of banking transactions were entered into with related parties in the normal course of business.

(a) Balances with related parties:

	30 June 2018	31 December 2017
Due from banks:		
- Other related parties[(1)]	1,721,594	860,264
Loans and advances to customers:		
- Other related parties[(2)]	3,035,583	2,510,720
Trading securities:		
- Shareholder[(3)]	-	11,710
Investment securities ("Held to maturity")		
- Shareholder[(4)]	287,277	180,461
Funds borrowed		
- Other related parties[(5)]	47,988,823	42,055,781
Other liabilities		
- Other related parties	1,372	1,100

[(1)] Average interest rate for due from banks is 10.72% (31 December 2017: 13.91%)
[(2)] Average interest rate for loans and advances to customers is 4.24% (31 December 2017: 4.05%)
[(3)] As of 30 June 2018 there is no trading securities balance (31 December 2017: 8.2%)
[(4)] Average interest rate for investment securities is 10.81% (31 December 2017: 9.5%)
[(5)] Average interest rate for funds borrowed is 0.77% (31 December 2017: 0.93%)

(b) Transactions with related parties:

	30 June 2018	30 June 2017
Interest income on investment and trading securities:		
- Shareholder	47	6,160
Interest income on loans and advances to customers:		
- Other related parties	34,042	32,778
Interest expense on funds borrowed:		
- Other related parties	239,535	103,267
Operating expenses (taxes paid)		
-Other related parties	8,368	3,734

(c) Remuneration of key management personnel:

	30 June 2018	30 June 2017
Salaries and other short-term employee benefits	1,988	2,051

28 EVENTS AFTER THE REPORTING PERIOD

None.