QNB Finansbank Anonim Şirketi
And Subsidiaries

Consolidated Financial Statements
as at and for the Year Ended
December 31, 2017

Contents

Report on the Audit of the Consolidated Financial Statements

To the Board of Directors of QNB Finansbank A.Ş.

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of loans and advances

There is a potential risk that loans and advances are impaired and no reasonable impairment losses/provisions are provided in accordance with the requirements of IFRS, accordingly determining the adequacy of impairment allowance on loans and advances to customers is a key area of judgment for the management. Accordingly, loans and advances to customer is a key area of judgement for the management. Carrying amount of loans and customers might be greater than the estimated recoverable amounts, therefore the impairment test of these loans of advances is a key audit matter. Refer Note 23 to the consolidated financial statements relating to the impairment of loans and advances.

Our audit procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and advances. We also assessed whether impairment losses for loans and advances were reasonably determined in accordance with the requirements of IFRS. In addition we considered, assessed and tested the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to confirm the operating effectiveness of the key controls in place, which identify the impaired loans and advances and the required provisions against them.

Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased), credit default swaps and other derivative financial instruments are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. There is a potential risk in fair valuation of derivative instruments in accordance with IFRS.

Also, as explained in Note 22 to the consolidated financial statements the Group enters into hedge relationships to manage exposures to interest rate, and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions that meet the specified criteria. The Group uses of derivatives and other hedge relationships to hedge the financial risk of its deposits, loans, investment securities for sale, bond issued, borrowings and non-financial assets.

The Group documents the hedge relationship between hedging instruments and hedged items at inception, as well as their risk management objectives and the strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the instruments that are used in hedging transactions are highly effective in offsetting changes in values of hedged items. The Group performs prospective and retrospective effective effectiveness tests and accounts the results in accordance with IFRS.There is a potential risk that hedge relationship is not eligible, effective, accounted correctly nor documented formally in accordance with IFRS.

Our procedures included, amongst others, recalculating fair value calculation, assessment of financial risk component, reviewing hedge documentation for all hedge relationships, effectiveness tests, hedge accounting entries and disclosures relating to derivative financial instruments and hedge accounting considering the requirements of IFRS.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors

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

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

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

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

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

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

The engagement partner who supervised and concluded this independent auditor's report is Damla Harman.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst &Young Global Limited

Damla Harman
Partner, SMMM

Istanbul, Turkey
April 10, 2018

Certification of the Board of Directors and Chief Financial Officer

We, the members of the Board of Directors of QNB Finansbank A.Ş. and Group CFO certify that to the best of our knowledge:
The financial statements for the annual period ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards – IFRS and present a true and fair view of the assets, liabilities, equity and results of operations of the Bank and of the consolidated companies included in the consolidation.

April 10, 2018

Ali Teoman Kerman
Member of the Board of Directors and Chairman of the Audit Committee

Durmuş Ali Kuzu
Member of the Board of Directors and of the Audit Committee

Temel Güzeloğlu
General Manager and Member of the Board of Directors

Adnan Menderes Yayla
Group CFO

QNB FİNANSBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2017

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

		12 months period ended December 31,	
	Notes	**2017**	**2016**
Interest income	7	11,549,450	9,162,029
Interest expense	7	(6,916,920)	(5,071,389)
Net interest income		**4,632,530**	**4,090,640**
Fee and commission income	8	1,746,015	1,302,839
Fee and commission expense	8	(106,125)	(80,319)
Net fee and commission income		**1,639,890**	**1,222,520**
Dividend income		1,454	169
Net trading income / (expense) and results from investment securities	9	151,710	62,779
Other operating income	10	76,237	252,837
Total operating income		**6,501,821**	**5,628,945**
Personnel expenses	11	(1,359,004)	(1,243,535)
General and administrative expenses	13	(1,460,473)	(1,322,027)
Depreciation, amortization and impairment charges	14	(257,513)	(252,126)
Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables	15	(1,308,808)	(1,353,661)
Share of gains/(losses) of joint ventures	28	43,268	(9,041)
Other provision expenses	16	(38,221)	(63,620)
Profit before tax		**2,121,070**	**1,384,935**
Income tax expense	17	(417,321)	(264,876)
Profit for the year		**1,703,749**	**1,120,059**
Attributable to:			
Equity holders of the Parent		1,703,554	1,119,083
Non-controlling interest		195	976
Earnings per share - Basic and Diluted (Full TL)	18	0.0509	0.0334

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

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

	Notes	12 month period ended December 31, 2017	12 month period ended December 31, 2016
Profit for the year		**1,703,749**	**1,120,059**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale investments reserve		232,671	(348,898)
Net change in fair value	26	237,744	(235,393)
Net amount transferred to profit or loss		(5,073)	(113,505)
Net gains / (losses) on cash flow hedges		239,630	(44,531)
Net change in fair value		238,303	(25,907)
Net amount transferred to profit or loss		1,327	(18,624)
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains / (losses) related to employee benefits		(34,503)	2,663
Effect of changes in actuarial assumptions	12	(34,503)	2,663
Income tax relating to components of other comprehensive income	31	**(87,096)**	**78,238**
Other comprehensive income for the year, net of tax		**350,702**	**(312,528)**
Total comprehensive income for the year		**2,054,451**	**807,531**
Total comprehensive income attributable to:		**2,054,451**	**807,531**
Equity holders of the Parent		2,054,256	806,555
Non-controlling interests		195	976

QNB FİNANSBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Cash and balances with T.R. Central Bank	19	15,882,276	13,103,891
Due from banks	20	1,902,768	2,350,421
Financial assets at fair value through profit or loss	21	89,390	50,811
Hedging derivatives	22	2,938,126	3,443,338
Trading derivatives	22	2,504,142	2,773,998
Loans and advances to customers	23	82,113,497	62,372,834
Factoring receivables	24	1,385,979	753,072
Finance lease receivables	25	4,473,945	2,705,627
Available for sale investments	26	8,353,636	7,035,875
Held to maturity investments	27	7,168,664	5,900,507
Investments in joint ventures	28	135,381	101,704
Intangible assets	29	344,715	294,231
Property and equipment	30	1,959,923	1,854,709
Deferred tax assets	31	41,867	70,988
Other assets	32	1,497,163	1,238,231
Total assets		**130,791,472**	**104,050,237**
LIABILITIES			
Due to other banks	33	12,175,578	11,822,239
Customer deposits	34	65,264,397	51,920,282
Hedging derivatives	22	536,074	426,728
Trading derivatives	22	2,070,244	2,601,504
Debt securities issued	35	10,360,066	6,313,252
Funds borrowed	36	21,745,053	14,392,483
Current tax liabilities	17	419,559	196,962
Deferred tax liabilities	31	-	-
Retirement benefit obligations	12	193,738	152,911
Other provisions	37	143,484	111,799
Other liabilities	38	4,232,546	4,515,795
Total liabilities		**117,140,739**	**92,453,955**
EQUITY			
Share capital issued	40	3,350,000	3,150,000
Share premium		714	714
Available for sale investments reserve, net of tax		(229,575)	(420,153)
Actuarial gains / (losses), net of tax		(72,343)	(46,170)
Cash flow hedging reserve, net of tax		231,847	45,550
Reserves and retained earnings	41	10,362,485	8,858,931
Equity attributable to owners of the Group		**13,643,128**	**11,588,872**
Non-controlling interest		7,605	7,410
Total equity		**13,650,733**	**11,596,282**
Total equity and liabilities		**130,791,472**	**104,050,237**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

QNB FİNANSBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

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

	Note	Share capital	Share premium	Available for sale investments reserve, net of tax	Net gains / (losses) on cash flow hedges, net of tax	Actuarial gains / (losses), net of tax	Reserves and retained earnings	Equity attributable to owners of the Group	Non-controlling interest	Total
Balance at January 1, 2016		**3,000,000**	**714**	**(141,093)**	**81,175**	**(48,327)**	**7,833,198**	**10,725,667**	**193,594**	**10,919,261**
Profit for the year		-	-	-	-	-	1,119,083	1,119,083	976	1,120,059
Other comprehensive income for the year, net of tax		-	-	(279,060)	(35,625)	2,157	-	(312,528)	-	(312,528)
Total comprehensive income for the year, net		**-**	**-**	**(279,060)**	**(35,625)**	**2,157**	**1,119,083**	**806,555**	**976**	**807,531**
Issue of share capital	40	150,000	-	-	-	-	(150,000)	-	-	-
Dividends paid		-	-	-	-	-	-	-	-	-
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries		-	-	-	-	-	56,650	56,650	(187,160)	(130,510)
Balance at December 31, 2016		**3,150,000**	**714**	**(420,153)**	**45,550**	**(46,170)**	**8,858,931**	**11,588,872**	**7,410**	**11,596,282**
Profit for the year		-	-	-	-	-	1,703,554	1,703,554	195	1,703,749
Other comprehensive income for the year, net of tax		-	-	190,578	186,297	(26,173)		350,702		350,702
Total comprehensive income for the year, net of tax		**-**	**-**	**190,578**	**186,297**	**(26,173)**	**1,703,554**	**2,054,256**	**195**	**2,054,451**
Issue of share capital	40	200,000	-	-	-	-	(200,000)	-		-
Dividends paid		-	-	-	-	-	-	-	-	-
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries		-	-	-	-	-	-	-	-	-
Balance at December 31, 2017		**3,350,000**	**714**	**(229,575)**	**231,847**	**(72,343)**	**10,362,485**	**13,643,128**	**7,605**	**13,650,733**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

QNB FİNANSBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

	Note	12 month period ended December 31, 2017	2016
Cash flows from operating activities			
Interest received		10,803,696	9,084,326
Interest paid		(9,985,323)	(5,056,174)
Income from associates and dividends received		1,454	169
Fee and commission received		1,723,683	1,290,530
Trading gain / (loss)		5,137,727	2,118,433
Recoveries of loans previously written off and impaired loans		146,062	1,015,716
Fee and commission paid		(106,125)	(80,319)
Cash payments to employees and suppliers		(2,089,985)	(1,947,705)
Cash received from other operating activities		76,237	252,837
Cash paid for other operating activities		(393,482)	(558,564)
Income and other taxes paid		(340,138)	(146,235)
Cash flows from operating activities before changes in operating assets and liabilities		**4,973,806**	**5,973,014**
Changes in operating assets and liabilities			
Due from banks		(36,176)	31,978
Financial assets at fair value through profit or loss		(2,173,026)	(2,777,364)
Loans and advances to customers		(18,021,034)	(5,259,182)
Factoring receivables		(1,555,323)	(595,336)
Finance lease receivables		(632,907)	(178,513)
Other assets		(303,478)	(216,599)
Due to other banks		168,613	2,240,269
Customer deposits		10,431,469	1,758,826
Other liabilities		(446,078)	747,875
Net cash used in/provided by operating activities		**(7,594,134)**	**1,724,968**
Cash flows from investing activities			
Purchases of available for sale investment securities	26	(2,417,929)	(2,434,879)
Proceeds from sale and redemption of available for sale investment securities		1,591,876	1,339,916
Purchases held to maturity investment securities	27	(829,915)	(1,478,607)
Redemption of held to maturity investment securities		140,075	-
Acquisitions of property and equipment		(138,430)	(159,705)
Proceeds from the disposal of property and equipment		15,191	34,841
Acquisitions of intangible assets	29	(166,285)	(129,266)
Dividend received from investment in joint ventures	28	9,593	-
Net cash (used in) provided by / (used in) investing activities		**(1,795,824)**	**(2,827,700)**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities	35,36	16,762,592	9,790,961
Payments of funds borrowed and debt securities	35,36	(7,400,387)	(6,471,803)
Dividends paid to equity holders of the parent		-	-
Other		-	(130,509)
Net cash provided by financing activities		**9,362,205**	**3,188,649**
Effect of net foreign exchange differences on cash and cash equivalents		207,063	92,329
Net increase / (decrease) in cash and cash equivalents		179,310	2,178,246
Cash and cash equivalents at the beginning of the year	43	5,909,986	3,731,740
Cash and cash equivalents at the end of the year	**43**	**6,089,296**	**5,909,986**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

1 General information

QNB Finansbank Anonim Şirketi (hereinafter the “Bank” or “ QNB Finansbank”) was incorporated in Istanbul on September 23, 1987, by the Fiba Group (“Fiba”). The Bank was listed on the Istanbul Stock Exchange on February 3, 1990. Currently the Bank only has a free float of 0.19% of its shares. The registered address of the Bank is at Kristal Kule, Büyükdere Caddesi, No 215, Şişli 34394 Istanbul, Turkey.

A share sales agreement has been concluded between National Bank of Greece S.A. (NBG) and Qatar National Bank (“QNB”) at a price of EUR 2.750 million as of December 21, 2015. Necessary permissions related to share transfer have been completed on May 4, 2016. Before the related official bodies on May 12, 2016 and share transfer of the Bank has been completed on June 15, 2016.

99.88% of shares of QNB Finansbank A.Ş. are controlled by Qatar National Bank as of December 31, 2017 and remaining 0.12% of related shares are public shares.

50% of QNB shares, which is the first commercial bank of Qatar founded in 1964 and has been traded at Qatar Stock Exchange since 1997, are owned by Qatar Investment Authority while 50% of related shares are public shares. QNB is operating over 30 countries mainly in Middle East and North Africa

Regions as well as being the biggest bank of Qatar. Also with respect to total assets, total credits and total deposits QNB is the biggest bank of Middle East and North Africa.

The Bank has decided to change the logo and the name of the company within the scope of the main shareholder change and brand strategies and the new logo of the Parent Bank has started to be used as "QNB FİNANSBANK" as of October 20, 2016. According to the decision dated January 17, 2018 which was taken by the General Assembly, “The Bank's trade name is changed from FİNANS BANK A.Ş to QNB FİNANSBANK A.Ş as of January 19, 2018.

The accompanying consolidated financial statements of the Bank for the year ended December 31, 2017 comprise the Bank and its subsidiaries (together referred to as the “Group”) listed in note 47.

Nature of Activities of the Bank / Group

The Group’s activities include trade finance, corporate and commercial banking, treasury, retail banking and credit card operations. The Bank operates through a total of 580 branches, of which 578 are domestic branches, 2 is the İstanbul Atatürk Airport Free Trade Zone, and an off-shore banking branch in Bahrain.

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

1.1 Information About the Chairman and Members of Board of Directors, Members of Audit Committee, Managing Director and Executive Vice Presidents; Any Changes, and the Information About the Parent Bank Shares They Hold and Their Responsibilities

Name	Title	Date of Appointment	Education
Dr. Ömer A. Aras	Chairman	April 16, 2010	Phd
Sinan Şahinbaş	Deputy Chairman	April 16, 2010	Masters
Ali Teoman Kerman	Board Member and Head of Audit Committee	April 16, 2013	Masters
Ramzi Talat A.Mari	Board Member and Member of the Audit Committee	June 16, 2016	Masters
Fatma Abdulla S.S. Al- Suwaidi	Board Member and Member of the Audit Committee	June 23, 2016	Masters
Durmuş Ali Kuzu	Board Member and Member of the Audit Committee	August 25, 2016	Phd
Temel Güzeloğlu	Board Member and General Manager	April 16, 2010	Masters
Abdulla Mubarak N.Alkhalifa	Board Member	June 23, 2016	Graduate
Associate Prof. Osman Reha Yolalan	Board Member	June 21, 2016	Phd
Ali Rashid A.S.Al-Mohannadi	Board Member	June 16, 2016	Graduate
Noor Mohd J. A. Al-Naimi	Board Member	June 22, 2017	Graduate
Adnan Menderes Yayla	Executive Vice President	May 20, 2008	Masters
Murat Şakar	Executive Vice President	August 1, 2008	Graduate
Köksal Çoban	Executive Vice President	August 19, 2008	Masters
Dr. Mehmet Kürşad Demirkol	Executive Vice President	October 8, 2010	Phd
Özlem Cinemre	Executive Vice President	July 9, 1997	Graduate
Hakan Alp	Executive Vice President	July 7, 2010	Graduate
Erkin Aydın	Executive Vice President	May 16, 2011	Masters
Ömür Tan	Executive Vice President	October 28, 2011	Graduate
Halim Ersun Bilgici	Executive Vice President	March 15, 2013	Masters
Enis Kurtoğlu	Executive Vice President	May 14, 2015	Masters
Murat Koraş	Executive Vice President	May 14, 2015	Masters
Emel Yılmaz Özbay	Executive Vice President	February 12, 2016	Graduate
Engin Turhan	Executive Vice President	June 14,2016	Masters
Ahmet Erzengin	Head of the Department of Internal Control and Compliance	September 12,2012	Graduate
Bülent Yurdalan	Head of Department of Internal Systems	August 6,2013	Graduate
Ersin Emir	Head of Internal Audit	February 18,2011	Masters
Zeynep Aydın Demirkıran	Head of Risk Management	September 16,2011	Masters

These financial statements have been approved for issue by the Bank’s Board of Directors on April 9, 2018.

2 Summary of significant accounting policies

2.1 Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss, available-for-sale investments and loans which are designated at fair value through profit or loss. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority "POAASA" and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations.

The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of presentation in accordance with IFRS.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes and contingencies from litigation. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Adoption of International Financial Reporting Standards (IFRS)

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2017. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2017 are as follows:

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group disclosed additional information in Note 35 in its annual consolidated financial statements for the year ended 31 December 2017.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are retrospectively applied for annual periods beginning on or after 1 January 2017. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The amendments did not have an impact on the financial position or performance of the Group.

ii) Standards issued but not yet effective and not early adopted

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

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. There will be no material impact of the standard on financial position or performance of the Group.

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. There will be no material impact of the standard on financial position or performance of the Group.

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

IFRS 9 Financial Instruments

The Group will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information in accordance with International Financial Reporting Standards (IFRS). .IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognizing loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

Along with the on going works on expected credit losses under IFRS 9, it is assumed the the effect of the credit losses and related deferred tax will cause a decrease of approximately 10% on equity.

A number of significant judgments are required in determining whether the risk of default on a financial instrument has increased significantly since initial recognition. The Group considers all reasonable and supportable information that includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward looking information, to make a relative assessment of any deterioration of credit quality as per IFRS9.

The above assessment of Significant Increase in Credit Risk (SICR) reflects the transitional estimate of ECL impact arising after considering all reasonable and supportable information from prior periods up to the reporting date.

a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair value changes in OCI and profit and loss will no longer be reclycled under IFRS 9, and, therefore, the application of IFRS 9 will not have a significant impact.

Loans and advances to customers as well as lease, factoring and other receivables as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

b) Expected credit losses

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for SICR;

- Choosing appropriate models and assumptions for the measurement of ECL;

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

- Establishing groups of similar financial assets for the purposes of measuring ECL.

The impact of standard on all three aspects of TFRS 9 is as follows:

c) Hedge accounting:

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

d) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

b. share-based payment transactions with a net settlement feature for withholding tax obligations; and

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IAS 40 Investment Property: Transfers of Investment Property (Amendments)

The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The interpretation is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in “IAS 12 Income Taxes” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

(a) whether an entity considers uncertain tax treatments separately;

(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;

(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

(d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to *IAS 28* Investments in *Associates and Joint Ventures*. The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB announced *Annual Improvements to IFRS Standards 2015–2017 Cycle,* containing the following amendments to IFRSs:

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 *Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 *Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On 7 February 2018, the IASB published Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

2.3 Consolidation

2.3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (including special purpose entities), which are entities controlled by the Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income and expenses and other comprehensive income of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and in the consolidated statement of other comprehensive income, respectively, from the effective date of acquisition and up to the effective date of disposal, as appropriate. Profit for the period and total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2.3.2 Non-controlling interests

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.3.3 Changes in the Group's ownership interests in subsidiaries that do not result in loss of control

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

2.3.4 Loss of control

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Assets of the subsidiary carried at fair value with the related cumulative gain or loss recognized in other comprehensive income, the amount previously recognized in other comprehensive income are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to the statement of profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.3.5 Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of a joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of a joint venture. An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

2.3.5 Joint Ventures (continued)

On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group’s investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39.

The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group’s consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

2.4 Business combinations

2.4.1 Acquisition method

Acquisitions of businesses are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition-related costs are expensed as incurred and included in the statement of profit or loss under general and administrative expenses.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

2.4.2 Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the statement of profit or loss.

2.4.3 Contingent consideration

From January 1, 2010, when the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Other contingent consideration that:

(i) is within the scope of IAs 39/ IFRS 9 is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss in accordance with that IFRS.

(ii) is not within the scope of IAs 39/IFRS 9 is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

For acquisitions before January 1, 2010, contingent consideration was recorded when its amount becomes probable and reliably measurable.

2.4.4 Business combination achieved in stages

From January 1, 2010, when a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in the statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to the statement of profit or loss where such treatment would be appropriate if that interest were disposed of.

2.5 Foreign currency transactions

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements of the Group are presented in thousands of TL, which is the functional currency of the Bank.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss. Translation differences on debt securities and other monetary financial assets re-measured at fair value are included in net trading income and results from investment securities. Translation differences on non-monetary financial assets are a component of the change in their fair value and are recognized in the statement of profit or loss for equity securities held for trading, or in other comprehensive income for equity securities classified as available for sale investment securities. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Foreign currency translation rates used by the Group as of December 31, 2017 and 2016 are as follows:

	EUR / TL	USD / TL
December 31, 2017	4,5478	3,8104
December 31, 2016	3.6939	3.5318

2.6 Regular way purchases and sales

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognized on the settlement date apart from trading and investment securities and derivative instruments, which are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset.

2.7 Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased), credit default swaps and other derivative financial instruments are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Derivatives are presented in assets when favorable to the Group and in liabilities when unfavorable to the Group. Financial assets or liabilities at fair value through profit or loss are initially recognized and subsequently re-measured at fair value. All related realized and unrealized fair value gains and losses are included in net trading income. Interest earned or paid whilst holding financial assets or liabilities at fair value through profit or loss is reported as interest income or expense.

A derivative may be embedded in another financial instrument, known as "host contract". In such cases, the derivative instrument is separated from the host contract and treated as a separate derivative, provided that its risks and economic characteristics are not closely related to those of the host contract, the embedded derivative actually meets the definition of a derivative and the host contract is not carried at fair value with unrealized gains and losses reported in the statement of profit or loss.

2.7 Derivative financial instruments and hedge accounting (continued)

Certain derivative instruments transacted as effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held for trading purposes.

The Group also uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The Group applies fair value or cash flow hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment. The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- at inception of the hedge, there is formal designation and documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the hedging period. A hedge is considered to be highly effective when the Group achieves offsetting changes in fair value between 80 percent and 125 percent for the risk being hedged; and
- the hedge is highly effective on an ongoing basis;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

2.7.1 Fair value hedges

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognized in the statement of profit or loss along with the corresponding change in the fair value of the hedged item that is attributable to that specific hedged risk. For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the income statement in net trading income. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the income statement in net trading income.

In FV hedges of fixed rate Eurobond and government bonds classified as available for sale financial assets, fair value changes which have already been booked in other comprehensive income (OCI) are reclassified from OCI to net trading income in profit or loss statement.

If the hedge relationship no longer meets the criteria for hedge accounting, for reasons other than the de-recognition of the hedged item, or the hedging designation is revoked, the cumulative adjustment to the carrying amount of the hedged item, is, in the case of interest bearing financial instruments, amortized to the statement of profit or loss over the remaining term of the original hedged item using a recalculated effective interest rate , or in the case of a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only in such a hedge), using a straight-line method. In other cases, adjustments to the hedged asset or liability arising from the application of hedge accounting are dealt with in accordance with the normal accounting treatment for that item. If the hedged item has been derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately in the statement of profit or loss.

In cases where fair value hedge operations cannot be effectively performed as described in IAS 39, fair value hedge accounting is ceased. The fair value differences reflected to income statement prior to discontinuation of hedge accounting are amortized through equity until the maturity of related hedged securities. The fair value differences of related portfolio securities sold prior to maturity are immediately realized in the income statement.

2.7.2 Cash flow hedges

Fair value gains or losses associated with the effective portion of a derivative designated as a cash flow hedge are recognized initially in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in net trading income in the statement of profit or loss.

When the cash flows that the derivative is hedging (including cash flows from transactions that were only forecast when the derivative hedge was effected) materialize, resulting in income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from other comprehensive income to corresponding income or expense line item.

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in other comprehensive income is transferred to the statement of profit or loss when the committed or forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the statement of profit or loss.

2.7.3 Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective test), and demonstrate actual effectiveness (retrospective test) on an ongoing basis.

The documentation of each hedging relationship sets out how the hedge effectiveness is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

Hedge ineffectiveness is recognized in the statement of profit or loss.

2.8 Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when, and only when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously or on a net basis.

2.9 Interest income and expenses

Interest income and expenses are recognized in the statement of profit or loss for all interest bearing instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, finance lease receivables, factoring receivables and due from banks, coupons earned on investment and trading securities and accrued discount and premium on treasury bills and other instruments.

Fees and direct costs relating to a loan origination or acquiring a security, financing or restructuring and to loan commitments are deferred and amortized to interest income over the life of the instrument using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Fees and commissions

Fee and commission income is generally recognized on an accrual basis over the period the service is provided. Commission and fee arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts.

The fee and commissions paid to other institutions are recognized as transaction cost and recorded using effective interest rate method.

2.11 Financial assets and liabilities at fair value through profit or loss ("FVTPL")

This category has the following two sub-categories:

- Trading and
- Financial assets and liabilities designated at fair value through profit or loss.

2.11.1 Trading

The trading category includes securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists, and derivatives unless they are designated as and are effective hedging instruments. Trading securities may also include securities sold under sale and repurchase agreements (see Note 2.17 below).

2.11.2 Financial assets and liabilities designated at fair value through profit or loss

The Group designates at initial recognition certain financial assets or liabilities as at fair value through profit or loss when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, for example the Board of Directors and Chief Executive Officer. The fair value designation, once made, is irrevocable.

2.11.3 Measurement

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognized at fair value and subsequently re-measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in net trading income and results from investment securities.

Interest income generated from financial assets are recognized under net interest income in the statement of profit or loss.

Dividend income is recognized in the statement of profit or loss when the right to receive payment is established. This is the ex-dividend date for equity securities and is separately reported and included in dividend income.

The amount of change during the period, and cumulatively, in the fair values of designated loans and advances to customers that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

2.12 Available for sale investments

Available for sale investments are initially recognized at fair value (including transaction costs) and subsequent to initial recognition are measured at fair value. Unquoted equity instruments whose fair value cannot be reliably estimated are carried at cost. Unrealised gains and losses arising from changes in the fair value of available for sale investment securities are reported in other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

Available for sale investment securities may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. When an available for sale investment security is disposed of or impaired, the accumulated unrealised gain or loss included in other comprehensive income is transferred to the statement of profit or loss for the period and reported as gains / losses from investment securities.

Impairment: The Group assesses at each reporting date whether there is objective evidence that an available for sale investment security or a group of such securities is impaired.

Particularly for equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of profit or loss) is removed from other comprehensive income and recognized in the statement of profit or loss.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

Interest earned while holding investment securities is reported as interest income.

Dividend income is recognized when the right to receive payment is established (the ex-dividend date) for equity securities and is separately reported and included in dividend income.

2.13 Held to maturity investments

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including the funding ability exist, other than those that meet the definition of loans and receivables.

2.14 Loans and advances to customers

Loans and advances to customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, and the Group does not intend to sell immediately or in the near term. Loans and advances to customers include those classified as loans and receivables and those designated as fair value though profit or loss.

Loans originated by the Group are recognized when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method, unless they are designated as at “fair value through profit or loss” (see Note 2.11.2).

2.15 Impairment losses on loans and advances to customers

The Group assesses at each reporting date whether there is objective evidence that a loan, or a group of loans is impaired.

A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan (or group of loans) that can be reliably estimated.

An allowance for impairment is established if there is objective evidence that the Group will be unable to collect all amounts due according to the original contractual terms.

Objective evidence that a loan (or group of loans) is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) Significant financial difficulty of the issuer or obligor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;

(c) The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) The disappearance of an active market for that financial asset because of financial difficulties; or

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

i. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or

ii. national or local economic conditions that correlate with defaults on the assets in the group.

The impairment loss is reported through the use of an allowance account on the statement of financial position. Additions to impairment losses are made through impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the statement of profit or loss.

The Group assesses whether objective evidence of impairment exists individually for loans that are considered individually significant and individually or collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

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

2.15 Impairment losses on loans and advances to customers (continued)

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Loans and advances to customers are grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not currently exist.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the statement of profit or loss.

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

2.16 Sale and repurchase agreements

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to repurchase agreements ('repos'), continue to be recognized on the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included within securities sold under agreements to repurchase in due to other banks or customer deposits, as appropriate. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed rate at a specified future date ('reverse repos') are not recognized on the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in due from banks. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

2.17 Securities borrowing and lending

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in net trading income.

Respectively, securities lent and securities provided as collateral under securities borrowing transactions are not derecognized from the financial statements unless control of the contractual rights that comprise these securities transferred is relinquished.

The Group monitors the market value of the securities borrowed and lent on a regular basis and provides or requests additional collateral in accordance with the underlying agreements. Fees and interest received or paid are recorded as interest income or interest expense, on an accrual basis.

2.18 Financial liabilities and equity

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

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities,

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

2.19 Derecognition

2.19.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or

2.19.1 Financial assets (continued)

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.19.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

2.20 Fair value of financial instruments

The Group measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain OTC derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

2.20 Fair value of financial instruments (continued)

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

2.21 Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Group for use in the supply of services or for administrative purposes. Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into operating condition. Subsequent to initial recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are capitalised, only when it is probable that they will result in future economic benefits to the Group beyond those originally anticipated for the asset, otherwise they are expensed as incurred.

Depreciation of an item of property and equipment begins when it is available for use and ceases only when the asset is derecognized. Therefore, the depreciation of an item of property and equipment that is retired from active use does not cease unless it is fully depreciated, but its useful life is reassessed. Depreciation on property and equipment is calculated using the straight-line method over their estimated useful lives as follows:

Land	No depreciation
Buildings and land improvements	Up to 50 years
Furniture and fixtures	5-12 years
Machinery and equipment	4-5 years
Vehicles	4-7 years
Leasehold improvements	Over the term of respective leases

Expenses for repairs and maintenance are charged to expenses as incurred.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

At each reporting date the Group assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the fair value less costs to sell and value in use. Impairment losses are recognized in the statement of profit or loss.

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

Foreclosed assets, which consist mainly of properties acquired through foreclosure in full or partial satisfaction of a related loan, are initially measured at fair value less estimated costs to sell, which includes transaction costs, and reported under other assets. After initial recognition foreclosed assets are re-measured at the lower of their carrying amount and fair value less estimated costs to sell.

2.21 Property and equipment (continued)

Subsequent gains may be recognized up to the amount of previous write-downs. Any gains or losses on liquidation or re-measurement of foreclosed assets are included in other operating income/ (expenses).

2.22 Intangible assets

Intangible assets include goodwill, purchased software and internally generated software.

Goodwill

Subsequent to initial recognition, goodwill is stated at cost, as established at the date of acquisition (see Note 29) less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The Group assesses goodwill for possible impairment annually or more frequently if there are indications for impairment. The assessment involves estimating whether the carrying amount of the goodwill remains fully recoverable. When making this assessment the Group compares the carrying value of the CGU to which the goodwill is allocated to its recoverable amount, which is the higher of fair value less cost to sell and value in use. Fair value is estimated by reference to market value, if available, or is determined by a qualified evaluator or pricing model. Determination of a fair value and value in use requires management to make assumptions and use estimates. If the recoverable amount is less than the carrying amount, an irreversible impairment loss is recognized, and the goodwill is written down by the excess of the carrying amount of the unit over its recoverable amount.

Internally generated software

The amount initially recognized for internally generated software is the total expenditure incurred from the date when the internally generated software first meets the recognition criteria. Where no internally generated software can be recognized, development expenditure is charged to the statement of profit or loss in the period in which it is incurred.

Research costs are expensed as incurred. An internally generated software arising from development expenditure incurred on an individual project is recognized only when the Group can demonstrate:

- the technical feasibility of completing the internally generated software so that it will be available for use,
- its intention to complete and use the asset,
- the ability to use the asset,
- how the asset will generate future economic benefits,
- the ability of adequate technical, financial and other resources to complete the development and use the asset and
- the ability to measure reliably the expenditure during development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and impairment losses.

2.22 Intangible assets (continued)

Purchased software

Software includes costs that are directly associated with identifiable and unique software products controlled by the Group that are anticipated to generate future economic benefits exceeding costs beyond one year. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of software. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any impairment losses.

Measurement

Software costs recognized as assets are amortized using the straight-line method over their useful lives, for internal generated software the useful life is 5 years whereas for purchased software the useful life is 3 years.

The carrying value of intangible assets is reviewed for impairment annually or more frequently when an indication of impairment arises during the reporting year.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

2.23 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

2.23.1 The Group as a lessee

Finance leases: Leases where the Group has substantially all the risks and rewards of ownership of the asset are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The outstanding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the statement of profit or loss over the lease period. All assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases: Leases where a significant portion of the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases. These include rent agreements of branch premises, which are cancelable subject to a period of notice. The total payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.23.2 The Group as a lessor

Finance leases: When assets are leased out under a finance lease, the present value of the minimum lease payments is recognized as a receivable. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance leases are presented in finance lease receivables.

Impairment losses on finance lease receivables

The Group assesses at each reporting date whether there is objective evidence that a finance lease receivable is impaired in a similar way to the loans and advances to customers as described in 2.14. Any impairment loss is recognized also in a similar way to the loans and advances to customers as described in 2.14.

Operating leases: Assets leased out under operating leases are included in the statement of financial position based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

2.24 Factoring receivables

Factoring receivables are calculated on the basis of their historical cost and are amortized with effective interest rate after unearned interest income is charged and specific provisions for impairments are provided, if any. Factoring receivables are revised regularly for any impairment. Specific provision for the impairment of factoring receivables is provided over the carrying amount of factoring receivables for the purpose of adjusting their values to the collectable amount.

2.25 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, unrestricted balances held with central banks, amounts due from other banks and highly liquid financial assets with original maturities of less than three months from the date of acquisition such as treasury bills and other eligible bills, investment and trading securities which are subject to insignificant risk of changes to fair value and are used by the Group in the management of its short-term commitments.

2.26 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement recognized.

2.27 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract, other than those assessed as insurance contracts, is recognized initially at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the best estimate of the amount required to settle the guarantee at the reporting date.

2.28 Employee benefits

The Group has defined benefit plans as described below:

A defined benefit plan is a post-employment benefit plan that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. For defined benefit plans, the liability is the present value of the defined benefit obligation as at the reporting date minus the fair value of the plan assets (if any), including any adjustments for unrecognized actuarial gains/losses and past service cost.

In accordance with existing Turkish Labor Law, the Group is required to make lump-sum severance indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The Group has reflected the retirement pay liability amount, which was calculated by an independent actuary, using the projected unit credit method in the accompanying financial statements.

Remeasurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest expense and service costs related to the defined benefit plans are recognized in personnel expenses in the statement of profit or loss.

Short-term emloyee benefits - The Group provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19, “Employee Benefits”.

Defined contribution plans - The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognized as an employee benefit expense when they are accrued.

2.29 Income taxes

Tax charge (benefit) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

a. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. In accordance with the Corporate Tax Law No. 5520 published in the Official Gazette No: 26205 dated June 21, 2006, statutory income is subject to corporate tax at 20%. However, according to temporary article 10 added to the Corporate Income Tax Law, the rate of 20% shall be applied as 22% for the corporate earnings of the taxation periods of the companies in 2018, 2019 and 2020 (accounting periods starting within the relevant year for companies appointed for the special accounting period).

b. Deferred tax

Deferred tax is fully provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date. Since the applicable tax rate has been changed to 22% for the 3 years beginning from 1 January 2018, 22% tax rate is used in the deferred tax calculation of 31 December 2017 for the temporary differences expected to be realized/closed within 3 years (for the years 2018, 2019 and 2020). However, since the corporate tax rate after 2020 is 20%, 20% tax rate is used for the temporary differences expected to be realized/closed after 2020.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items which are recognized in other comprehensive income is also recognized in other comprehensive income. Such deferred tax is subsequently recognized in the statement of profit or loss together with the deferred gain or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

2.30 Interest bearing deposits and borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. Interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

2.31 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

2.32 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision makers.

All transactions between business segments are conducted on an arm´s length basis, with inter-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

2.33 Related party transactions

Related parties include entities, which the Group has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, close members of their families, companies owned or controlled by them and companies over which they can influence the financial and operating policies.

2.34 Fiduciary and trust activities

The Group provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not recognized in the financial statements, since such items are not as assets of the Group. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

2.35 Earnings per share

The basic earnings per share (EPS) ratio is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share ratio is computed using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if convertible debt securities, options, warrants or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

3 Critical judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. The Group believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate given the factual circumstances as of December 31, 2017.

The most significant areas, for which judgments, estimates and assumptions are required in applying the Group's accounting policies, are the following:

Allowances for loans and advances to customers, finance lease and factoring receivables

The amount of the allowance for impairment of loans and advances to customers, finance lease receivables and factoring receivables is based upon management's ongoing assessments of the probable estimated losses inherent in the loan and lease portfolios. Assessments are conducted by members of management responsible for various types of loans and leases employing a methodology and guidelines, which are continually monitored and improved.

This methodology has two primary components: individual and collective impairment assessments, as described in Note 2.15.

Applying this methodology requires management to make estimates regarding the amount and timing of the cash flows, which are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in favor of the Group. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed.

In assessing the need for collective loan and lease loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made both to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances and provisions depends on the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, management believes that the allowances and provisions are reasonable and supportable.

The amount of the allowance for impairment of loans and advances to customers, finance lease receivables and factoring receivables are described in Note 23,25,24.

3 Critical judgments and estimates (continued)

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include present value methods and other models based mainly on observable input parameters and to a small extent to non-observable input parameters.

All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed thereafter, by qualified personnel independent of the area that created the model.

The Group applies the models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. Management therefore establishes valuation adjustments to cover the risk associated with the estimation of unobservable input parameters and the assumptions within the models themselves.

Although a significant degree of judgment is, in some cases, required in establishing fair values, management believes the fair values recorded in the statement of financial position and the changes in fair value recorded in the statement of profit or loss are prudent and reflective of the underlying economics, based on the controls and procedural safeguards employed.

Hedge of foreign currency risk on nonfinancial assets:

As explained in Note 22, based on market practice and the opinion of independent appraisers, the Group concluded that foreign currency risk in its property is a value driver which is separately identifiable and measureable. Therefore foreign currency component of its property and foreign currency denominated debt securities issued.has been designated as hedged item and hedging item respectively.

4 Other Matters

None.

5 Financial risk management

5.1 Risk management governance

The Group's Risk Management Department is responsible for monitoring and managing all potential risks for the Group in a centralized and efficiently coordinated manner. The primary goal of the Group's Risk Management Department is to provide business lines with appropriate capital allocation (economic capital) for risks they are exposed to.

The Group aims to adopt practices regarding risk management governance, taking into account all relevant guidelines and regulatory requirements, as set by the Basel Committee, BRSA and the Capital Markets Board ("CMB"), as well as any decisions of the competent authorities supervising the Group entities.

Risk management governance at the Group starts with the Board of Directors. The Board Risk Committee ("BRC"), Asset Liability Committee ("ALCO"), Corporate and Retail Credit Policy Committee ("CPC"), Operational Risk Committee ("ORC") and the Risk Management Department are the important bodies of the risk management structure. The Board of Directors determines the general risk policy and the risk appetite of the Bank. The BRC defines risk policies and strategies, reviews the types of risks the Bank is exposed to in its monthly meetings, monitors the implementation of the risk management strategies and brings the important risk issues to the attention of the Board. The ALCO, meeting bi-weekly, is responsible for monitoring and managing the structural asset liability mismatches of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange risk. The CPC meets monthly and is responsible for monitoring and evaluating the Bank's lending portfolio and determining principles and policies regarding the credit risk management processes such as loan approval, limit setting, rating, monitoring and problem management. The ORC meets every three months and is responsible for reviewing operational risk issues of the Bank and defining the necessary actions to be taken to minimize these risks. The Risk Management Department, working independently from the executive functions and reporting to the Board of Directors, is organized under four groups as market risk, credit risk, operational risk and model validation, each having responsibility for identifying, measuring, monitoring, controlling and managing the relevant risks as well as for model validation, assessing the predictive ability of risk estimates and the use of ratings in credit processes.

The Internal Audit Division, which reports directly to the Board of Directors through the Audit Committee, complements the risk management framework and acts as an independent reviewer, focusing on the effectiveness of the risk management framework and control environment.

5.1.1 Board Risk Committee

The Group's risk management policies are approved by the BRC, the members of which are the Chairman of the Board of Directors, and three members of the Board of Directors. According to its internal regulation, the BRC is responsible for all strategic risk management decisions including, for example, the approval and review of risk strategy, policies and capital adequacy and allocation as well as oversight of the CPC and the ORC.

5.1.2 Group Risk Management Department

The department seeks to protect the Group against unforeseen losses and to maintain earnings stability through the independent identification and assessment of risks. It uses a framework for evaluating risks as the basis for organizing the Group structure. Its role in maximizing the Bank's earnings potential involves measuring performance on a risk-adjusted basis and allocating capital accordingly.

5.1.2 Group Risk Management Deparment (continued)

In addition, it is responsible for providing the BRC and the Executive Committee with data and analysis required for measuring, monitoring and managing risks and for supporting the implementation of risk management decisions. Group risk management policies are approved by the BRC.

The department undertakes to do the following:

- Analyze, measure, monitor, control, mitigate and report to management all significant on- and off-balance sheet risks undertaken at the Bank and the Group level;
- Adopt risk management policies with regard to significant credit, market, operational and other risks undertaken by the Bank and the Group;
- Evaluate the internal capital that is required in respect of all aforementioned risks and estimate all relevant capital ratios of the Bank and the Group;
- Establish a framework for undertaking risk applicable to all levels of management and collective bodies of the Bank and the Group;
- Establish early warning systems and perform stress tests on a regular basis; and
- Guide decision making processes at the Group level by providing the necessary risk management related evaluation.

5.1.3 Asset and liability management

The ALCO propose asset and liability management procedures and policies to the Board of Directors. The ALCO is responsible for executing these policies and managing structural interest rate risk within the limits defined by the Board of Directors. The ALCO meets on a monthly basis. At these meetings, the ALCO reviews the critical issues and determines the strategies for asset and liability management.

5.1.4 Internal Audit Division

Internal Audit Division ("IAD") in the Group has objective of conducting assurance and consulting activities designed to add value and improve operations.

5.1.5 Management of specific risks

QNB Finansbank's risk management processes distinguish among the types of risks set out below.

5.2 Credit risk

Credit risk represents the risk arising from the counterparty not fulfilling its responsibilities stated in the agreement either partially or totally. The Credit Risk Committees and Credit Divisions are responsible for managing credit risk of the Group.

The total limit amount which is imposed on debtors individually or as a group is determined according to the size of the exposure and the assessment of different loan allocation parties in QNB Finansbank. Beside total limit, product base limits also exist.

The creditworthiness of the Group's debtors is continuously monitored as long as the credit relation exists. Updated financial statements and intelligence is periodically collected by credit departments. The limits of the loan customers are revised periodically and the Group analyses the creditworthiness of the customers and requires collaterals within the framework of its credit policies.

The Group establishes limits over the positions of forward transactions, options and other similar agreements. The credit risk arising from these instruments is managed together with the risks resulting from market fluctuations. The Group monitors regularly risks of forward transactions, options and other similar agreements and reduces the risk if necessary by obtaining margin deposits or entering into netting agreements.

The restructured and rescheduled loans are monitored by the Bank according to its Credit Risk Policy. According to the Credit Risk Policy, the Bank could restructure or reschedule a loan in order to strengthen the liquidity of the loan customer and to increase the collectability of the loan. After evaluation of the loan, the loan is either restructured by issuing additional loan to the customer or rescheduled by modifying the payment amount or the schedule. The customer's financial position and commercial activities are continuously analyzed and the principal and interest payments of rescheduled loans are monitored by the credit department.

Grades for companies having restructured and rescheduled loans are updated based on the analysis and credit performance of the company.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements, without taking account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

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

5.2 Credit risk (continued)

Gross maximum exposure	December 31, 2017	December 31, 2016
T.R. Central Bank	14,870,224	12,039,829
Due from banks	1,902,768	2,350,421
Financial assets at FVTPL	69,818	33,265
Derivative financial assets	5,442,268	6,217,336
Available for sale investments	8,273,908	6,982,762
Held to maturity investments	7,168,664	5,900,507
Loans and advances to customers	82,113,497	62,372,834
Factoring receivables	1,385,979	753,072
Finance lease receivables	4,473,945	2,705,627
Other assets	349,110	323,302
Total	**126,050,181**	**99,678,955**
Financial guarantees and lending commitments	19,315,049	13,184,010
Credit card limits	17,115,833	16,396,189
Other commitments	34,430,217	24,404,728
Total	**70,861,099**	**53,984,927**
Total credit risk exposure	**196,911,280**	**153,663,882**

5.2.1 Credit rating system

QNB Finansbank aims to manage its loan portfolio based on international best practices. In this respect, the Bank has formed internal scoring and rating systems, based on statistical methods to monitor the credibility of its clients. These systems classify the customers according to their default risk from highest to lowest score or rating. Internal scoring systems are used to improve the efficiency of the loan granting process, to monitor loan portfolio quality effectively and to assist in the determination of the actions required. The Bank uses rating and scoring systems for corporate customers in order to assess the creditworthiness of a customer applying for a loan, and behavioral scoring systems for existing customers in order to calculate the default probability in a certain period of time. These systems are revised periodically based on international best practices and methodologies and calibrated if necessary.

The table below indicates the level of ratings for the corporate / commercial and enterprise banking loans and advances to customers:

	2017 (%)	2016 (%)
Debtor has a strong financial structure	18	21
Debtor has a good financial structure	44	42
Debtor has a medium financial structure	28	29
Debtor has a financial structure which needs attention in medium term	7	8
Not graded	2	-
Total	**100**	**100**

5.2.1 Credit rating system (continued)

The Bank utilizes behaviour scorecards in order to monitor retail loans (mortgage loans, consumer credits, credit cards) portfolio. Behaviour scorecards are developed and validated in-house. There are different behaviour scorecards for each product group as well as delinquency status (there are different scorecards for current credits and delinquent credits for each credit type). Behaviour scores are calculated with every installment/statement starting at 3rd month for credit cards and retail loans using payment behaviour of the customer. The scorecards measure the probability that the loan will become non-performing in the following months. All of the scorecards are monitored on quarterly basis and, if needed, necessary actions are taken to update them. In application and collection stages, the scorecards are utilized heavily in strategies. Behavior scores are also used for selecting target groups for cross-sell and other marketing campaigns.

The most common practice used by the Group to mitigate credit risk is the taking of security for funds advances. The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and advances to customers are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, ships, vehicles, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Cash collaterals;
- Bank or personal guarantees.

Revolving credit facilities to individuals and debt securities, treasury and other eligible bills are generally unsecured.

5.2.2 Loans and advances to customers and finance lease receivables restructured

Restructuring activities include extended and/or rescheduled payment arrangements, approved external management plans, arrangement of terms of loan such as modification and deferral of payments, interest rate, foreign exchange (“FX”) type, collateral structure, granting additional loan sale of collaterals, sale of debts, or sale of company.

If restructuring is entered into for non-performing loans such loans will reported as non-performing for a minimum of 6 months and may be reported as performing if 15% of loan amount is collected. If not, such loans will be continue to be reported as non-performing for at least 6 more months. If an additional loan was granted during restructuring, then at least 20% of the combined outstanding amount at the time of restructuring must be collected in order to be eligible to no longer be reported as non-performing. As of December 31, 2017, the total amount of restructured loans included in non performing loans are 60,081 TL (December 2016: TL 73,703).

As of December 31, 2017, the total amount of restructured finance lease receivables included in non performing loans are 56,701 TL (December 2016: TL 46,102).

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

5.2.3 Credit risk by industry sector

An industry sector analysis of the Group's loans and advances to customers are as follows:

Industry sector	December 31, 2017	December 31, 2016
Private individuals	28,912,532	23,948,331
Trade and services (excl. tourism)	12,883,900	9,061,285
Industry & mining	11,797,222	8,050,871
Small scale industry	6,707,302	6,344,032
Transportation and telecommunications	4,518,517	3,129,594
Construction and real estate development	5,861,726	3,082,491
Tourism	2,269,580	1,088,911
Leasing	162,521	185,202
Factoring	779,388	450,771
Other	8,220,809	7,031,346
Total	**82,113,497**	**62,372,834**

An industry sector analysis of the Group's finance lease receivables are as follows;

Industry sector	December 31, 2017	December 31, 2016
Small scale industry	4,239,815	2,621,479
Industry and mining	129,831	48,191
Construction and real estate development	23,468	-
Transportation and telecommunications	18,572	15,395
Tourism	19,369	-
Trade and services (excl. tourism)	4,458	1,590
Other	38,432	18,972
Total	**4,473,945**	**2,705,627**

An industry sector analysis of the Group's factoring receivables are as follows;

Industry sector	December 31, 2017	December 31, 2016
Industry and mining	433,105	211,857
Construction and real estate development	293,723	168,480
Trade and services (excl. tourism)	177,347	167,126
Transportation and telecommunications	102,537	29,606
Tourism	44,316	35,931
Shipping	5,867	4,613
Small scale industry	5,379	12,671
Other	323,705	122,788
Total	**1,385,979**	**753,072**

5.2.4 Counterparty risk

The Group faces counterparty risk from the over-the-counter transactions and the repurchase agreements in which it is involved. Counterparty risk is the risk arising from an obligor's failure to meet its contractual obligations. For the efficient management of counterparty risk, the Bank has established a framework of counterparty limits. The financial institution department is responsible for setting and monitoring the limits.

Counterparty limits are set based on the credit ratings of the financial institutions. The credit ratings are provided by internationally recognized ratings agencies, in particular by Moody's and Standard & Poor's. According to the Bank's policy, if agencies disagree on the creditworthiness of a financial institution, only the lowest rating will be taken into consideration. In cases where a financial institution is not rated by the above agencies, its rating is given by the Bank's internal rating model.

The counterparty limits apply to all financial instruments which the Treasury department actively trades in the interbank market. The limits framework is revised according to the business needs of the Bank and prevailing conditions in international financial markets. A similar limit structure for the management of counterparty risk is enforced across all of the Group's subsidiaries.

The Group seeks to reduce counterparty risk by standardizing relationships with counterparties through International Swaps and Derivatives Association ("ISDA"), Global Master Repurchase Agreement ("GMRA") and Global Master Securities Lending Agreement ("GMSLA") contracts that respectively include all necessary closeout netting clauses and margining agreements. Additionally, for the most active counterparties in over-the-counter derivatives, credit support annexes have been put in effect so that on the basis of daily valuations, net current exposures are managed through margin accounts where cash collaterals can be reciprocally posted.

The Bank avoids taking positions in derivative contracts where the values of the underlying assets are highly correlated with the credit quality of the counterparty.

To calculate capital requirements, QNB Finansbank measures the exposure amount by applying a methodology that includes:

- data gathering via risk management systems;
- performance of quantitative and qualitative checks; and
- application of the fair value methodology according to the BRSA.

5.3 Market risk

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity and bond prices and foreign exchange rates) and their levels of volatility. In recent years, the Group has expanded its trading activities to include a wide variety of financial products in order to enhance its profitability and its service to customers. These trading activities require QNB Finansbank to assume market risk, which the Group seeks to identify, estimate, monitor and manage effectively through a framework of principles, measurement processes and a valid set of limits that apply to all of the Group's transactions. The capital required for General Market Risk and Specific Risk is calculated and reported monthly in accordance with the Standard Method defined in the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" issued by the BRSA. The most significant types of market risk for the Group are interest rate risk and foreign exchange risk.

Interest rate risk is the risk related to the potential loss on the Group's portfolio due to adverse movements in the interest rates. Interest rate risk is the risk that the fair value or future cash flows of Group's portfolio will fluctuate because of changes in market interest rates. A principal source of interest rate risk exposure arises from the Group's trading and available-for-sale bond portfolios, floating rate assets and liabilities carried at amortized cost, and its interest rate exchange traded and OTC transactions.

The Group has to manage the interest rate risk that derives from the positions it retains in Turkish government bonds, denominated mostly in TL. In addition, the Group enters into swap transactions either for hedging purposes, or for proprietary reasons. As a means of hedging, the Group enters into swap transactions in order to hedge the interest rate risk of its Eurobond portfolio, which consists of Turkish government bonds denominated in foreign currency.

The Group also obtains liquidity in US dollars and Euro which are then converted into TL through cross currency interest rate swaps in order to offer loans to its customers. Furthermore, these cross currency interest rate swaps act as a hedge to the interest rate risk that derives from the Group's loan portfolio.

Equity risk is the risk related to the potential loss that might occur due to adverse movements in the prices of stocks and equity indices. The Group holds a limited portfolio of stocks, the majority of which are traded on the Istanbul Stock Exchange, and also retains positions in stock and equity index derivatives traded in the Turkish and international exchanges.

Foreign exchange risk is the risk related to the potential loss due to adverse movements in foreign exchange rates. The foreign exchange risk derives from the Group's Open Currency Position ("OCP").

The Group trades in all major currencies holding mainly short-term positions for trading purposes and for servicing its institutional, corporate, domestic and international clients. According to the Bank's strategy, the end of day OCP should comply with the regulatory limits.

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

5.3.1 Market risk on trading and available-for-sale portfolio

The Bank estimates the market risk of its trading and available-for-sale ("AFS") portfolios by applying a Value-at-Risk ("VaR") methodology. In particular, the Bank has adopted a historical simulation methodology with a 99% confidence interval and a one day holding period. Bank Risk Tolerance and VaR limits for each risk factor are determined in order to manage the market risk efficiently and to keep the market risk within the desired limits. The Group Risk Management Department monitors VaR balances daily for compliance with the limits. Periodic stress tests and scenario analyses are used to support the results of VaR.

The VaR limits have been determined by reference to worldwide best practices; they refer not only to specific types of market risk, such as interest rate, foreign exchange and equity risk, but also to the overall market risk of the Bank's trading and AFS portfolios.

The tables below present the Bank's VaR for 2017 and 2016;

2017	Total VaR	Interest Rate VaR	Foreign Exchange Risk VaR	Equity and Commodity VaR
As of December 31	24,318	24,091	717	-
Average	31,430	31,316	868	-
Minimum	15,023	15,365	144	-
Maximum	60,980	61,261	3,631	3

2016	Total VaR	Interest Rate VaR	Foreign Exchange Risk VaR	Equity and Commodity VaR
As of December 31	55,227	55,436	340	1
Average	46,643	46,994	944	14
Minimum	24,757	24,928	65	1
Maximum	83,835	84,557	4,929	31

In addition, the Bank performs back testing in order to verify the predictive power of its VaR model. The calculations involve the comparison of "hypothetical" daily gains and losses with the respective estimates of the VaR model used for regulatory purposes.

Stress test analysis is also performed by QNB Finansbank on its trading and available for sale portfolios on a monthly basis. The scenarios refer to extreme movements of interest rates and foreign exchange prices and are based on the latest financial crises which have taken place in Turkey.

5.3.2 Limitations of the VaR model

The VaR model is based on certain theoretical assumptions, which under extreme market conditions might not capture the maximum loss the Bank will suffer. The restrictions of the Bank's methodology are summarized as follows:

- The use of historical data series as predictive measures for the behaviour of risk factors in the future might prove insufficient in periods of intense volatility in financial markets.

5.3.2 Limitations of the VaR model (continued)

- The one-day holding period for VaR calculations (or ten days for regulatory purposes) implies that the Bank will be able to liquidate all its trading assets within this length of time. This assumption might underestimate market risk in periods of insufficient liquidity in financial markets or in cases where certain assets in the Bank's portfolio cannot be easily liquidated.
- VaR refers to the plausible loss on the Bank's portfolio for a 99% confidence interval, not taking into account any losses beyond that level.
- All calculations are based on the Bank's positions at the end of each business day, ignoring the intra-day exposures and any realized losses that might have been incurred.
- VaR estimates rely on small changes in the prices of risk factors. For bigger movements, the methodology would not fully capture the effect on the value of the portfolio.

5.3.3 Interest rate risk in the banking book and interest rate sensitivity

The interest rate risk resulting from banking book comprises of maturity mismatch risk, yield-curve risk, base risk and option risk. Within the scope of the interest rate risk, the Bank analyzes all these risks periodically, and considering market conditions, manages all aspects of interest rate risk on banking book effectively in accordance with the Bank strategy. The Group believes that it maintains adequate measurement, monitoring, and control functions for interest rate risk in the banking book, including:

- measurement systems for interest rate risk that capture all material sources of interest rate risk and that assess the effect of interest rate changes in ways that are consistent with the scope of the Group's activities;
- measurement of vulnerability to loss under stressful market conditions;
- processes and information systems for measuring, monitoring, controlling, and reporting interest rate risk exposures in the banking book; and
- a documented policy regarding the management of interest rate risk in the banking book.

Interest rate risk that would arise from the changes in interest rates depending on the Group's position is managed by the ALCO of the Bank.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analyzed by top management in the ALCO meetings held every month by taking the market developments into consideration.

The Management of the Group follows the interest rates in the market on a daily basis and revises interest rates of the Group when necessary.

In addition to customer deposits and bond issuance, the Bank funds its long term fixed interest rate TL installment loan portfolio with long term (up to 10 years) floating interest rate foreign currency funds obtained from international markets. The Bank swaps the foreign currency liquidity obtained from the international markets to TL liquidity with long term swap transactions (fixed TL interest rate and floating foreign currency interest rate).

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

5.3.3 Interest rate risk in the banking book and interest rate sensitivity (continued)

Even though the Bank is exposed to structural interest rate risk on its statement of financial position due to the nature of its existing activities, the Bank's policy aim to ensure that this risk stays within the pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/GAP analyses, which rely on calculations of net discounted future cash flows of interest rate sensitive balance sheet items, are conducted to manage this risk.

The Bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins, so as to calculate their impact on net economic value. Beside the Basel standard interest rate shock scenario, 2001 crisis, May 2004 and June 2006 scenarios are also simulated.

The interest rate risk on banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published by BRSA on August 23, 2011, and the legal limit as per this measurement is monitored and reported monthly to Asset and Liability Committee, the Board Risk Committee and the Board of Directors.

Type of Currency	Shocks Applied (+/- x basis points)	Gains/ (Losses)	Gains/Equity-(Losses) /Equity
1. TL	(+) 500	(1.248.899)	(8,83) %
	(-) 400	1.189.846	8,42%
2. EUR	(+) 200	27.327	0,19%
	(-) 200	2.203	0,02%
3. USD	(+) 200	(59.494)	(0,42) %
	(-) 200	60.209	0,43%
Total (of negative shocks)		**1.252.258**	**8,86%**
Total (of positive shocks)		**(1.281.066)**	**(9,06)%**

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

5.3.3 Interest rate risk in the banking book and interest rate sensitivity(continued)

The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2017:

December 31, 2017

ASSETS	Up to 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with T.R. Central Bank	9,075,899	-	-	-	-	6,806,377	15,882,276
Due from banks	1,519,182	7,339	8,189	-	-	368,058	1,902,768
Financial assets at FVTPL	10,789	6,149	10,267	21,166	5,328	35,691	89,390
Derivative financial assets	-	-	-	-	-	5,442,268	5,442,268
Loans and advances to customers	16,883,605	8,694,340	26,636,458	24,347,157	3,424,550	2,127,387	82,113,497
Factoring receivables	547,491	324,828	467,016	33,326	-	13,318	1,385,979
Finance lease receivables	235,142	202,883	882,664	2,519,654	256,849	376,753	4,473,945
Available for sale investments	1,072,555	966,372	2,722,928	1,032,698	2,418,309	140,774	8,353,636
Held to maturity investments	191,969	1,387,592	2,088,237	999,729	2,286,334	214,803	7,168,664
Other assets	-	-	-	-	-	3,979,049	3,979,049
Total assets	**29,536,632**	**11,589,503**	**32,815,759**	**28,953,730**	**8,391,370**	**19,504,478**	**130,791,472**
LIABILITIES							
Due to other banks	8,828,800	1,909,256	1,272,828	-	30,659	134,035	12,175,578
Customer deposits	40,680,892	8,605,660	2,957,289	23,971	150	12,996,435	65,264,397
Derivative financial liabilities	-	-	-	-	-	2,606,318	2,606,318
Debt securities issued	1,841,696	3,231,577	501,609	4,741,621	-	43,563	10,360,066
Funds borrowed	3,706,758	3,071,535	8,544,560	3,490,393	2,807,972	123,835	21,745,053
Other liabilities	279	535	2,345	4,238	-	18,632,663	18,640,060
Total liabilities	**55,058,425**	**16,818,563**	**13,278,631**	**8,260,223**	**2,838,781**	**34,536,849**	**130,791,472**
On balance sheet sensitivity gap	**(25,521,793)**	**(5,229,060)**	**19,537,128**	**20,693,507**	**5,552,589**	**(15,032,371)**	**-**
Off-balance sheet sensitivity gap	**6,266,978**	**15,722,425**	**554,484**	**(16,166,423)**	**(3,063,760)**	**(3,313,704)**	**-**
Total interest sensitivity gap	**(19,254,815)**	**10,493,365**	**20,091,612**	**4,527,084**	**2,488,829**	**(18,346,075)**	**-**

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

5.3.3 Interest rate risk in the banking book and interest rate sensitivity(continued)

The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2016:

December 31, 2016

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with T.R. Central Bank	7,541,326	-	-	-	-	5,562,565	13,103,891
Due from banks	2,109,437	2,500	12,182	-	-	226,302	2,350,421
Financial assets at FVTPL	756	10,242	1,254	9,470	11,453	17,636	50,811
Derivative financial assets	-	-	-	-	-	6,217,336	6,217,336
Loans and advances to customers	13,149,139	7,611,880	21,750,473	15,630,100	2,691,935	1,539,307	62,372,834
Factoring receivables	373,168	136,952	221,321	18,110	-	3,521	753,072
Finance lease receivables	181,798	150,101	638,069	1,506,273	86,143	143,243	2,705,627
Available for sale investments	1,540,318	403,471	1,609,451	847,566	2,787,198	(152,129)	7,035,875
Held to maturity investments	178,373	1,181,254	1,626,021	1,301,498	1,516,723	96,638	5,900,507
Other assets	-	-	-	-	-	3,559,863	3,559,863
Total assets	**25,074,315**	**9,496,400**	**25,858,771**	**19,313,017**	**7,093,452**	**17,214,282**	**104,050,237**
LIABILITIES							
Due to other banks	9,268,797	1,490,934	894,461	-	28,111	139,936	11,822,239
Customer deposits	30,642,074	9,900,010	1,874,874	47,537	376	9,455,411	51,920,282
Derivative financial liabilities	-	-	-	-	-	3,028,232	3,028,232
Debt securities issued	708,025	2,266,065	1,548,134	1,750,320	-	40,708	6,313,252
Funds borrowed	2,321,062	2,443,444	9,332,693	231,219	351	63,714	14,392,483
Other liabilities	2,554,949	276,912	178,862	1,043,495	-	12,519,531	16,573,749
Total liabilities	**45,494,907**	**16,377,365**	**13,829,024**	**3,072,571**	**28,838**	**25,247,532**	**104,050,237**
On balance sheet sensitivity gap	**(20,420,592)**	**(6,880,965)**	**12,029,747**	**16,240,446**	**7,064,614**	**(8,033,250)**	**-**
Off-balance sheet sensitivity gap	**5,138,216**	**11,756,849**	**(1,342,029)**	**(9,351,397)**	**(2,379,841)**	**(3,821,798)**	**-**
Total interest sensitivity gap	**(15,282,376)**	**4,875,884**	**10,687,718**	**6,889,049**	**4,684,773**	**(11,855,048)**	**-**

5.3.4 Foreign exchange risk

The Group evaluates its exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group enters into foreign currency forward transactions and swap transactions to decrease foreign currency position risk. The Group also engages in foreign currency and Eurobond buy-sell option transactions.

The position limit of the Group related to currency risk is determined according to the Foreign Currency Net Position Standard ratio determined by the BRSA.

Consolidated subsidiaries and associates determine position limit related with currency risk as determined by local regulatory bodies. Branches established abroad conduct their operations in local currencies of the countries they are incorporated in.

As of December 31, 2017, the Group's net foreign currency position, after including off-balance sheet position (notional values of derivatives) is TL 338,458 short. (December 2016: TL 99,699 short.)

The table summarizes the Group's assets and liabilities and equity at carrying amounts and derivatives at notional amounts categorized by currency.

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

5.3.4 Foreign exchange risk (continued)

December 31, 2017

ASSETS	**TL**	**USD**	**EUR**	**Other**	**Total**
Cash and balances with T.R. Central Bank(*)	2,130,944	8,430,826	3,509,095	1,811,411	15,882,276
Due from banks	311,879	1,388,743	190,067	12,079	1,902,768
Financial assets at FVTPL	73,443	13,616	2,331	-	89,390
Derivative financial assets	5,257,801	96,069	87,982	416	5,442,268
Loans and advances to customers	59,719,099	9,185,041	13,063,427	145,930	82,113,497
Factoring receivables	1,229,318	57,441	59,057	40,163	1,385,979
Finance lease receivables	1,372,412	844,418	2,256,110	1,005	4,473,945
Available for sale investments	5,124,035	2,823,373	406,228	-	8,353,636
Held to maturity investments	3,740,199	3,408,710	19,755	-	7,168,664
Investments in associates	135,381	-	-	-	135,381
Intangible assets	344,715	-	-	-	344,715
Property and equipment	511,928	1,447,952	-	43	1,959,923
Deferred tax assets	41,867	-	-	-	41,867
Other assets	1,459,778	31,730	5,067	588	1,497,163
Total assets	**81,452,799**	**27,727,919**	**19,599,119**	**2,011,635**	**130,791,472**
LIABILITIES					
Due to other banks	2,406,590	6,655,803	3,010,349	102,836	12,175,578
Customer deposits (**)	34,555,824	21,318,126	7,703,752	1,686,695	65,264,397
Derivative financial liabilities	2,259,394	237,775	108,797	352	2,606,318
Debt securities issued	4,373,454	5,808,924	177,688	-	10,360,066
Funds borrowed	1,670,763	11,457,500	6,340,186	2,276,604	21,745,053
Deferred tax liabilities	-	-	-	-	-
Retirement benefit obligations	193,738	-	-	-	193,738
Current income taxes	419,559	-	-	-	419,559
Other liabilities and equity	17,247,470	518,343	250,639	10,311	18,026,763
Total	**63,126,792**	**45,996,471**	**17,591,411**	**4,076,798**	**130,791,472**
Net on balance sheet position	**18,326,007**	**(18,268,552)**	**2,007,708**	**(2,065,163)**	**-**
Net off-balance sheet position	**(17,961,580)**	**17,986,103**	**(2,135,608)**	**2,111,085**	**-**
Net position including TL	**364,427**	**(282,449)**	**(127,900)**	**45,922**	**-**

(*)Cash and Balances with T. R. Central Bank Other include TL 1,799,886 (December 2016: TL 1,554,973) precious metal deposit account.

(**)Customer Deposits include TL 1,198,394 (December 31, 2016 – TL 778,428) of precious metal deposit account.

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

5.3.4 Foreign exchange risk (continued)

As of December 31, 2016, the Group's net foreign currency position, after including off-balance sheet position (notional values of derivatives) is TL 70,170 long.

December 31, 2016

ASSETS	**TL**	**USD**	**EUR**	**Other**	**Total**
Cash and balances with T.R. Central Bank(*)	1,929,868	6,901,877	2,705,117	1,567,029	13,103,891
Due from banks	1,717,513	293,450	322,093	17,365	2,350,421
Financial assets at FVTPL	39,325	10,747	739	-	50,811
Derivative financial assets	6,020,061	115,786	81,244	245	6,217,336
Loans and advances to customers	45,873,692	8,757,715	7,724,364	17,063	62,372,834
Factoring receivables	659,370	36,376	33,528	23,798	753,072
Finance lease receivables	1,127,973	467,125	1,091,579	18,950	2,705,627
Available for sale investments	4,155,831	2,531,589	348,455	-	7,035,875
Held to maturity investments	3,383,952	2,500,366	16,189	-	5,900,507
Investments in associates	101,704	-	-	-	101,704
Intangible assets	294,231	-	-	-	294,231
Property and equipment	530,236	1,324,425	-	48	1,854,709
Deferred tax assets	70,988	-	-	-	70,988
Other assets	1,213,430	12,013	12,434	354	1,238,231
Total	**67,118,174**	**22,951,469**	**12,335,742**	**1,644,852**	**104,050,237**
LIABILITIES					
Due to other banks	3,361,157	5,056,560	3,182,291	222,231	11,822,239
Customer deposits (**)	31,220,893	13,646,702	5,901,732	1,150,955	51,920,282
Derivative financial liabilities	2,622,175	285,791	120,175	91	3,028,232
Debt securities issued	1,846,025	4,283,801	183,426	-	6,313,252
Funds borrowed	539,579	9,276,863	3,202,935	1,373,106	14,392,483
Deferred tax liabilities	-	-	-	-	-
Retirement benefit obligations	152,911	-	-	-	152,911
Current income taxes	196,962	-	-	-	196,962
Other liabilities and equity	15,338,670	762,494	103,410	19,302	16,223,876
Total	**55,278,372**	**33,312,211**	**12,693,969**	**2,765,685**	**104,050,237**
Net on balance sheet position	**11,839,802**	**(10,360,742)**	**(358,227)**	**(1,120,833)**	**-**
Net off-balance sheet position	**(11,909,972)**	**10,341,525**	**448,647**	**1,119,800**	**-**
Net position including TL	**(70,170)**	**(19,217)**	**90,420**	**(1,033)**	**-**

(*)Cash and Balances with T. R. Central Bank Other include TL 1,554,973 (December 2015: TL 1,694,042) precious metal deposit account.
(**)Customer Deposits include TL 778,428 (December 31, 2015 –TL 430,694) of precious metal deposit account.

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

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

	Change in currency rate	**Effect on net profit or loss**		**Effect on equity(*)**	
		2017	**2016**	**2017**	**2016**
USD	10% increase	(4,569)	(449)	(18,559)	(29,506)
USD	10% decrease	4,569	449	18,559	29,506
EUR	10% increase	(8,798)	8,535	(8,569)	7,234
EUR	10% decrease	8,798	(8,535)	8,569	(7,234)

(*)Effect on equity also includes the effect of the change in foreign currency rates on statement of profit or loss.

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

5.4 Liquidity risk

Liquidity risk arises in the general funding of QNB Finansbank's financing and trading activities and in the management of investment positions. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

It reflects the potential mismatch of payment obligation to incoming payments, taking into account unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (withdrawal/ call risk). Liquidity risk involves both the risk of unexpected increases in the cost of the funding the portfolio of asset at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The primary objectives of QNB Finansbank's asset and liability management are to ensure that sufficient liquidity is available to meet QNB Finansbank's commitments to its customers in respect of repayment of deposits and ATM transactions, to satisfy QNB Finansbank's other liquidity needs and to ensure compliance with capital adequacy and other applicable Central Bank regulations.

The ALCO is responsible for forming and overseeing the implementation of the asset and liability management strategy of QNB Finansbank. The objective of QNB Finansbank's asset and liability management strategy is to structure QNB Finansbank's balance sheet in view of liquidity risk, maturity risk, interest rate risk and foreign exchange risk, while ensuring that QNB Finansbank has adequate capital and is using capital to maximize net interest income.

The Bank applies following liquidity metrics in order to monitor and manage liquidity risk:

The basic tool for measuring, monitoring, and evaluating liquidity needs and liquidity sources is the liquidity gap report. Liquidity gap reports reflect the liquidity provided by cash inflows and the liquidity needed to fund cash outflows. They incorporate cash flows associated with assets and liabilities into time buckets.

Liquidity Coverage Ratio (LCR) is a short term quantitative liquidity standard which has been developed by the Basel Committee as a part of Basel III. The Bank maintains an adequate level of unencumbered, high-quality liquid assets (HQLA) that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress test scenario.

Liquidity Coverage Ratio	**FX**	**FX+TL**
December 31, 2017	156.4%	105.9%
Average (%)	136.3%	105.2%
Maximum (%)	208.1%	208.1%
Minimum (%)	107.1%	107.1%
Limit (%)	60.0%	80%

The ALCO sets QNB Finansbank's policies for interest rate levels and terms for loans and deposits and makes decisions regarding maturities and pricing of loans and deposits. In addition, members of the treasury department, including the group managers, managers, assistant managers and fixed income and foreign exchange traders, meet on a daily basis to monitor the risk exposure of QNB Finansbank, particularly QNB Finansbank's net foreign currency short position and the daily interest rate gap and duration.

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

5.4 Liquidity risk (continued)

QNB Finansbank's treasury department is responsible for managing and implementing QNB Finansbank's asset and liability positions on a day-to-day basis and ensuring the availability of funds for all of QNB Finansbank's products and services distributed through QNB Finansbank's branch network. The Treasury department measures and evaluates on a daily basis QNB Finansbank's risk exposure and unfavorable changes in market conditions and regularly monitors the short-term mismatches between assets and liabilities.

Analysis of financial liabilities by remaining contractual maturities

The tables below show the Group's maturity distribution of certain financial liabilities, other than derivatives. The tables below are prepared by considering the contractual undiscounted cash flows expected on the nearest cash flow dates. The interest which will be paid at the maturity date is included in these tables. Interest payable for floating rate liabilities are determined by taking the latest rate and applying the same rate for all the future payments.

December 31, 2017

	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Total
Due to other banks	12,175,578	3,047,115	5,542,247	1,549,970	1,466,875	2,723,611	712,531	15,042,349
Customer deposits	65,264,397	14,739,356	41,026,900	8,784,922	3,156,681	28,587	221	67,736,667
Debt securities issued	10,360,066	-	1,828,626	2,107,915	1,289,050	6,103,433	52,462	11,381,486
Funds borrowed	21,745,053	-	2,658,243	1,989,090	8,776,520	7,047,890	3,515,968	23,987,711
Other liabilities	3,594,011	-	2,642,092	502,697	235,518	213,704	-	3,594,011
Financial guarantees and lending commitments(*)	19,315,049	5,946,286	1,100,786	2,055,672	7,089,728	2,717,879	404,698	19,315,049
Total	**132,454,154**	**23,732,757**	**54,798,894**	**16,990,266**	**22,014,372**	**18,835,104**	**4,685,880**	**141,057,273**

December 31, 2016

	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Total
Due to other banks	11,822,239	3,408,731	5,531,497	864,890	1,591,421	1,497,732	591,066	13,485,337
Customer deposits	51,920,282	9,221,617	31,877,134	10,478,674	2,055,421	55,698	605	53,689,149
Debt securities issued	6,313,252	-	859,146	918,745	2,040,273	3,009,756	64,862	6,892,782
Funds borrowed	14,392,483	-	1,590,349	973,076	8,092,202	4,739,947	501,544	15,897,118
Other liabilities	4,054,218	-	2,554,949	276,912	178,862	1,043,495	-	4,054,218
Financial guarantees and lending commitments(*)	13,184,010	4,279,013	682,951	1,432,264	4,438,990	2,025,020	325,772	13,184,010
Total	**101,686,484**	**16,909,361**	**43,096,026**	**14,944,561**	**18,397,169**	**12,371,648**	**1,483,849**	**107,202,614**

(*) Amounts related to letters of guarantee represent maturities based on contract and amounts per these maturities and the amounts have the nature to be withdrawn on demand optionally.

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

5.4 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The tables below show the remaining maturities of derivatives:

December 31, 2017	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 years**	**Over 5 years**	**Total**
Forward Contracts Buy	3,376,800	1,322,808	1,232,445	750,734	-	6,682,787
Forward Contracts Sell	(3,384,147)	(1,347,699)	(1,250,000)	(788,451)	-	(6,770,297)
Interest Rate Swap Contracts Buy(*)	66,745	134,018	874,881	545,986	609,420	2,231,050
Interest Rate Swap Contracts Sell(*)	(112,792)	(276,869)	(1,253,424)	(453,297)	(951,479)	(3,047,861)
Currency Swap Contracts Buy	12,219,981	12,855,986	18,525,274	21,228,733	55,596	64,885,570
Currency Swap Contracts Sell	(12,015,895)	(12,447,141)	(17,510,467)	(19,415,282)	(33,863)	(61,422,648)
Futures Buy	-	24,500	80,713	-	-	105,213
Futures Sell	-	(24,005)	(80,713)	-	-	(104,718)
Options Buy	2,083,102	809,460	918,661	-	-	3,811,223
Options Sell	(2,116,124)	(808,827)	(915,333)	-	-	(3,840,284)
Credit Default Swaps Buy	-	-	-	-	-	-
Credit Default Swaps Sell	-	-	(304,832)	(323,884)	-	(628,716)
Total	**117,670**	**242,231**	**317,205**	**1,544,539**	**(320,326)**	**1,901,319**

December 31, 2016	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 years**	**Over 5 years**	**Total**
Forward Contracts Buy	2,862,930	1,227,332	1,655,467	13,864	-	5,759,593
Forward Contracts Sell	(2,925,301)	(1,224,732)	(1,672,828)	(13,534)	-	(5,836,395)
Interest Rate Swap Contracts Buy(*)	61,701	100,953	782,836	451,466	530,418	1,927,374
Interest Rate Swap Contracts Sell(*)	(80,778)	(143,689)	(1,188,128)	(606,765)	(899,847)	(2,919,207)
Currency Swap Contracts Buy	3,040,382	3,499,664	15,180,670	12,917,293	51,531	34,689,540
Currency Swap Contracts Sell	(2,693,320)	(3,250,171)	(14,318,272)	(10,572,116)	(33,863)	(30,867,742)
Futures Buy	-	1,685	34,727	818	-	37,230
Futures Sell	-	(1,685)	(34,727)	(818)	-	(37,230)
Options Buy	1,238,728	2,669,901	849,133	-	-	4,757,762
Options Sell	(1,257,010)	(2,727,322)	(847,706)	-	-	(4,832,038)
Credit Default Swaps Buy	-	-	-	158,931	-	158,931
Credit Default Swaps Sell	-	-	-	(441,475)	-	(441,475)
Total	**247,332**	**151,936**	**441,172**	**1,907,664**	**(351,761)**	**2,396,343**

(*)Interest rate swap transactions are settled in net amounts.

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

5.5 Fair values of financial assets and liabilities

a. Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at fair value and for which the fair value is different from the carrying amount.

	December 31, 2017				
Financial assets	**Carrying amount**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Loans and advances to customers (Note 23)	82,113,497	-	80,950,575	-	80,950,575
Finance lease receivables	4,473,945	-	4,546,058	-	4,546,058
Held to maturity investments	7,168,664	6,117,735	1,041,472	-	7,159,207

	December 31, 2017				
Financial liabilities	**Carrying amount**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Customer deposits	65,264,397	14,737,547	50,526,850	-	65,264,397
Debt securities issued	10,360,066	-	10,360,342	-	10,360,342
Funds borrowed	21,745,053	-	21,745,034	-	21,745,034

	December 31, 2016				
Financial assets	**Carrying amount**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Loans and advances to customers (Note 23)	62,372,834	-	62,125,268	-	62,125,268
Finance lease receivables	2,705,627	-	2,779,801	-	2,779,801
Held to maturity investments	5,900,507	4,718,114	1,037,413	-	5,755,527

	December 31, 2016				
Financial liabilities	**Carrying amount**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Customer deposits	51,920,282	9,221,619	42,723,103	-	51,944,722
Debt securities issued	6,313,252	-	6,436,945	-	6,436,945
Funds borrowed	14,392,483	-	14,483,731	-	14,483,731

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2017 and 2016 :

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

a. Financial instruments not measured at fair value (continued)

Loans and advances to customers and finance lease receivables: The fair value of loans and advances to customers and finance lease receivables with fixed interest rates is estimated using discounted cash flow models. The discount rates are based on current market interest rates offered for instruments with similar terms to the same borrowers or borrowers of similar credit quality. The carrying amount of floating rate loans is considered to approximate their fair values.

Customer deposits: The fair value of demand deposits is the payable amount at customer intention for withdrawal. The fair value of floating rated placements and the overnight deposits approximates their carrying amount. The fair value of fixed rate time deposits is calculated by discounting the expected future cash flows using the interest rate prevailing in the market.

Debt securities issued: Fair value is estimated using market prices, or if such are not available, using a discounted cash flow analysis, based on current market rates of similar maturity debt securities.

Funds borrowed: Fair value is estimated using market prices, or if such are not available, discounted cash flow analysis based on the Group's current incremental borrowing rates for similar types of borrowing arrangements is used.

Held to maturity investments: Fair value is calculated using market prices.

b. Financial instruments measured at fair value

The tables below present the fair values of those financial assets and liabilities presented on the Group's statement of financial position at fair value by fair value measurement level at December 31, 2017 and 2016, as described in Note 2.20.

	December 31, 2017			
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	89,390	-	-	89,390
Derivative financial assets	989	5,441,279	-	5,442,268
Loans and advances to customers designated at FVTPL (Note 23)	-	9,950	-	9,950
Available for sale investments	8,293,299	60,337	-	8,353,636
Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial liabilities	378	2,605,940	-	2,606,318

	December 31, 2016			
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	50,811	-	-	50,811
Derivative financial assets	3,781	6,213,555	-	6,217,336
Loans and advances to customers designated at FVTPL (Note 24)	-	22,839	-	22,839
Available for sale investments	6,952,862	83,013	-	7,035,875
Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial liabilities	502	3,027,730	-	3,028,232

b. Financial instruments measured at fair value (continued)

Level 3 Financial Instruments:

Level 3 financial instruments at December 31, 2017 include loans and advances to customers which are carried at fair value through profit or loss and which are valued using discounted cash flow valuation techniques incorporating unobservable credit spreads. The Bank conducts a review of fair value hierarchy classification on a quarterly basis.

Reconciliation of fair value measurements in Level 3:

	2017	2016
	Loans and advances to customers designated at FVTPL	**Loans and advances to customers designated at FVTPL**
Balance at January 1	-	**47,596**
Transfer into / (out of) level 3	-	(23,213)
Gain / (losses) included in statement of profit or loss	-	(11,166)
Gain / (losses) included in OCI	-	-
Purchases	-	-
Sales	-	-
Settlements	-	(13,217)
Balance at December 31	-	-

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

5.6 Capital adequacy and credit ratings

The Group's capital base includes all types of regulatory eligible Own Funds, as these are defined by the BRSA, which differs from the total equity under IFRS. Among others, the Group's regulatory own funds include the share capital, the share premium account, the reserves, retained earnings, and subordinated debt issues.

The Group manages actively its capital base by taking advantage of the contemporary means for raising capital, with the objective to sustain its capital adequacy ratios well above the minimum regulatory levels and at the same time to improve the weighted average cost of capital to the benefit of its shareholders. In this framework, both the calculation of the capital requirements and the dynamic management of the capital base are embedded in the business plan and the annual budgeting processes, in accordance with the capital adequacy targets that have been set in the Group's Risk Strategy.

The Group's total capital ratio is calculated by dividing its Tier 1 capital, which comprises general provisions per its statutory financial statements and evaluation surplus, by the aggregate of its risk-weighted assets, risk-weighted off-balance sheet exposures, market and other risk provisions. In accordance with the BRSA guidelines the Group must, in general, maintain a total capital ratio in excess of 8%; however, if operations include activities in offshore regions, as is the case with QNB Finansbank, the BRSA imposes 12%.

With the regulations published in the Official Gazette dated June 28, 2012, BRSA has introduced a Basel II based method for the Banking system. The Group's consolidated capital adequacy ratio is 14.49% calculated as in accordance with the related Communique as of December 31, 2017 (December 31, 2016: 14.27%)

The capital adequacy of the Group in accordance with the BRSA guidelines is as follows:

	December 31, 2017	**December 31, 2016**
Tier I capital	11,820,880	9,922,078
Tier II capital	2,675,956	1,582,608
Total capital	14,496,836	11,504,686
Deductions	(31,347)	(63,682)
Net total capital	14,465,489	11,441,004
Risk-weighted assets (including market & operational risk)	99,844,574	80,174,960
Capital adequacy ratios		
Tier I ratio	11.84%	12.38%
Total capital ratio	14.49%	14.27%

Credit ratings

The table below sets forth the credit ratings that have been assigned to the Bank by Moody's Investors Service Limited (referred to below as ''Moody's'') and Fitch Ratings Ltd. (referred to below as ''Fitch''). All credit ratings have been affirmed and/or upgraded as follows.

	Fitch March 2017	***Moody's March 2017***
Long-term foreign currency	BBB-	Ba2
Short-term foreign currency	F3	NP
Long-term local currency deposit	BBB-	Ba1
Short-term local currency deposit	F3	NP
National long-term national rating	AAA(tur)	-
Support	2	-
Bank financial strength	bb+	-
Outlook	Stable	Negative

6 Segment reporting

6.1 Operating segment

The Group has identified operating segments in a manner consistent with the internal reporting provided to the chief operating decision maker, the Board of Directors. The Group manages its business through the following business segments:

Retail banking

Retail banking includes individuals and micro enterprises. QNB Finansbank's retail banking activities consist primarily of mortgages, consumer lending, credit and debit card services, deposits and investments and insurance products.

Corporate and commercial banking

Corporate and commercial banking include lending to all large and medium-sized companies. QNB Finansbank's corporate and commercial banking activities include trade finance, traditional lending, SME banking, project finance, cash management, corporate syndication and secondary market transactions, deposits and the issuance of certificated debt instruments. QNB Finansbank's SME banking activities consist primarily of revolving credit lines, installment loans, overdrafts, business housing loans and deposits. The Bank also serves in trading financial instruments and treasury operations. The main function of Treasury Segment is managing the liquidity of the Bank and interest and foreign currency risks resulting from market conditions.

The segment information below is presented on the basis used by the Board of Directors to evaluate performance. The Board of Directors reviews discrete financial information for each of its segments, including measures of operating results. The segments are managed primarily on the basis of their results, which are measured on a basis which is broadly consistent with the Summary of Significant Accounting Policies described in Note 2, with the exception of certain adjustments. Management considers that this information provides the most appropriate way of reviewing the performance of the business. The adjustments are as follows:

- **Fee income and expense:** Fees received and paid which are considered an integral part of the effective interest rate calculation are presented as 'Net fee and commission income' instead of "Net interest income" as under IFRS.
- **Recoveries on loans and advances to customers previously written-off:** The subsequent recovery on loan amounts previously written off are reported in "net other income" instead of as a reduction of the provision for loan losses as under IFRS.
- **Operating expenses:** Represents operating expenses which can not be attributed to the segment results of operations.
- **Other:** Adjustments included in other represent the unwinding of interest, which is not included in the provision for impairment losses in the segment results of operations, and other individually insignificant reclassifications.

Transactions between the business segments are on normal commercial terms and conditions.

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

Breakdown by business segment	**Retail Banking**	**Corporate and Commercial Banking**	**Treasury and Head Office**	**Total**	**Reconciling Items**	**Total**
12 month period ended December 31, 2017						
External operating income	3,060,287	2,689,243	846,624	6,596,154	(94,333)	6,501,821
Net interest income	1,834,670	1,937,668	2,043,309	5,815,647	(1,183,117)	4,632,530
Net fee and commission income	1,137,582	619,957	25,049	1,782,588	(142,698)	1,639,890
Net other income	88,035	131,618	(1,221,734)	(1,002,081)	1,231,482	229,401
Total operating income	**3,060,287**	**2,689,243**	**846,624**	**6,596,154**	**(94,333)**	**6,501,821**
Total operating expenses	(1,625,224)	(1,195,497)	(266,518)	(3,087,239)	15,296	(3,071,943)
Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables	(551,721)	(679,289)	(37,982)	(1,268,992)	(39,816)	(1,308,808)
Profit before tax	**883,342**	**814,457**	**542,124**	**2,239,923**	**(118,853)**	**2,121,070**
Other Assets	26,591,405	61,694,595	37,462,051	**125,748,051**	5,043,421	**130,791,472**
Other Liabilities	40,773,968	24,423,671	43,872,709	**109,070,348**	21,721,124	**130,791,472**
Other Segment items	**261,180**	**177,829**	**51,024**	**490,033**	**181,653**	**671,686**
Capital expenditure	121,139	82,480	29,943	233,562	180,611	414,173
Depreciation and amortization	140,041	95,349	21,081	256,471	1,042	257,513

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

Breakdown by business segment	**Retail Banking**	**Corporate and Commercial Banking**	**Treasury and Head Office**	**Total**	**Reconciling Items**	**Total**
12 month period ended December 31, 2016						
External operating income	2,763,698	2,205,739	903,664	5,873,101	(244,156)	5,628,945
Net interest income	1,636,457	1,697,404	1,344,759	4,678,620	(587,980)	4,090,640
Net fee and commission income	950,210	448,156	46,511	1,444,877	(222,357)	1,222,520
Net other income	177,031	60,179	(487,606)	(250,396)	566,181	315,785
Total operating income	**2,763,698**	**2,205,739**	**903,664**	**5,873,101**	**(244,156)**	**5,628,945**
Total operating expenses	(1,585,963)	(1,033,439)	(330,432)	(2,949,834)	59,485	(2,890,349)
Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables	(656,335)	(893,291)	159,203	(1,390,423)	36,762	(1,353,661)
Profit before tax	**521,400**	**279,009**	**732,435**	**1,532,844**	**(147,909)**	**1,384,935**
Other Assets	23,735,540	42,338,771	33,220,193	**99,294,504**	4,755,733	**104,050,237**
Other Liabilities	35,177,287	16,714,270	32,352,884	**84,244,441**	19,805,796	**104,050,237**
Other Segment items	**345,581**	**210,252**	**64,163**	**619,996**	**(78,835)**	**541,161**
Capital expenditure	201,012	122,296	40,572	363,880	(74,845)	289,035
Depreciation and amortization	144,569	87,956	23,591	256,116	(3,990)	252,126

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

6.2 Geographical information

The Bank and its subsidiaries operate principally in Turkey and Bahrain. As the operation results outside of Turkey are quite negligible in the consolidated results, no further geographical segment information is presented.

7 Net interest income

	12 month period ended December 31,	
	2017	**2016**
Interest earned on:		
Loans and advances to customers (*)	9,499,329	7,864,827
Securities	1,242,111	839,970
Trading securities	8,042	5,180
Available for sale investments	617,790	483,872
Held to maturity investments	616,279	350,918
Finance lease receivables	291,722	217,301
Factoring receivables	145,016	99,817
Due from banks	371,272	140,114
Interest income	**11,549,450**	**9,162,029**
Interest payable on:		
Customer deposits	(3,969,360)	(3,250,548)
Debt securities issued and funds borrowed	(2,659,846)	(1,452,165)
Due to other banks	(287,714)	(368,676)
Interest expense	**(6,916,920)**	**(5,071,389)**
Net interest income	**4,632,530**	**4,090,640**

(*) The amount also includes the interest income generated from impaired loans amounting to TL 83,029 for the year ended 2017 (2016: TL 77,355).

8 Net fee and commission income

	12 month period ended December 31,	
	2017	**2016**
Fee and commission income		
Banking	1,642,843	1,220,330
Brokerage and fund management	66,838	44,074
Other	36,334	38,435
Total	**1,746,015**	**1,302,839**
Fee and commission expense		
Banking	(98,955)	(79,891)
Other	(7,170)	(428)
Total	**(106,125)**	**(80,319)**
Net fee and commission income	**1,639,890**	**1,222,520**

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

9 Net trading income and results from investment securities

	12 month period ended December 31,	
	2017	**2016**
Gains / (losses) on foreign exchange	139,729	82,849
Unrealized gains / (losses) on interest rate instruments	2,680	(37,178)
Realized gains / (losses) on equity shares under FVTPL	-	(2,531)
Realized gains from investment securities	9,301	19,639
Total	**151,710**	**62,779**

10 Other operating income

Other operating income mainly consists of gain on liquidation of property held for resale, rent income and other operating income.

11 Personnel expenses

	12 month period ended December 31,	
	2017	**2016**
Wages and salaries	839,207	807,783
Bonuses and other fringe benefits	184,376	128,574
Social security costs	134,523	125,443
Pension costs: defined benefit plans (Note 12)	47,759	46,454
Other personnel related benefits	153,139	135,281
Total	**1,359,004**	**1,243,535**

The average number of employees of the Group during the year 2017 and 2016 was 13,111 and 13,815, respectively. Other personnel related benefits include the cost of various benefits such as health insurance, transportation, food and training costs.

12 Retirement benefit obligations

Defined benefit plans

In accordance with Turkish Labor Law, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 4,732.48 (full TL) as of December 31, 2017, (TL 4,426.16 (full TL) as of December 31, 2016) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2017, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the reporting date. As of December 31, 2017, retirement pay liability of the Bank and local subsidiaries are accounted based on the actuarial calculations performed by an independent actuary. The plan is unfunded and hence, there are no plan assets disclosed.

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

12 Retirement benefit obligations (continued)

Amount recognized in the statement of profit or loss:

	12 month period ended December 31,	
	2017	**2016**
Current service cost	20,548	20,046
Interest cost on obligation	16,904	14,712
Settlement / curtailment / termination loss	10,307	11,695
Total charge	**47,759**	**46,453**

Defined benefit obligation in the statement of financial position:

	December 31, 2017	December 31, 2016
Present value of unfunded obligations	193,738	152,911
Total	**193,738**	**152,911**

Reconciliation of defined benefit obligation:

	2017	2016
Defined benefit obligation at January 1	152,911	137,603
Current service cost	20,548	20,046
Interest cost on obligation	16,904	14,712
Benefits paid directly by the Group	(41,435)	(28,482)
Settlement/ curtailment losses	10,307	11,695
Actuarial losses / (gains)	34,503	(2,663)
Defined benefit obligation at December 31	**193,738**	**152,911**

Remeasurements	December 31, 2017	December 31, 2016
Liability gain/(loss) due to changes in financial assumptions	(21,207)	8,082
Liability experience gain/(loss) arising during the year	(13,296)	(5,419)
Other adjustments recognised in OCI	-	-
Total actuarial gain/(loss) recognised in OCI	**(34,503)**	**2,663**

The weighted average assumptions used to determine the net periodic pension costs for the year ended December 31, 2017 and 2016 are:

	December 31, 2017	December 31, 2016
Discount rate	11.70%	11.40%
Rate of compensation increase	9.90%	8.80%
Plan duration	16.7	16.1
Inflation rate	8.90%	7.80%

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

13 General and administrative expenses

	12 month period ended December 31,	
	2017	**2016**
Utilities	293,352	272,660
Rent expenses	208,379	210,745
Audit, consulting and other services	125,713	112,539
Third party remuneration expenses and fees	111,691	105,114
Duties and taxes other than on income	101,175	95,000
Saving deposits insurance fund premiums	107,100	94,669
Promotion and advertisement expenses	95,633	81,776
Credit card expenses	61,916	53,670
Withholding taxes and duties on loans granted	49,057	52,481
Legal expenses	19,890	30,526
Stationary and other consumables	28,354	15,713
Traveling expenses	12,055	11,716
Subscriptions and contributions	4,859	4,021
Research expenses	7,559	2,947
Other administrative expenses	233,740	178,450
Total	**1,460,473**	**1,322,027**

14 Depreciation, amortization and impairment charges

	12 month period ended December 31,	
	2017	**2016**
Intangible assets (Note 29)	115,795	109,307
Property and equipment (Note 30)	141,718	142,819
Total	**257,513**	**252,126**

15 Impairment losses on loans and advances to customers, finance lease receivables, factoring receivables and other impairment charges

	12 month period ended December 31,	
	2017	**2016**
Impairment losses on loans and advances to customers	1,324,872	1,470,927
Impairment losses on finance lease receivables (Note 25)	39,846	29,825
Impairment losses on factoring receivables	15,924	18,605
Recovery (*)	(71,834)	(165,696)
Total	**1,308,808**	**1,353,661**

(*) Includes proceeds from NPL sales.

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

16 Other provision expenses

	12 month period ended December 31,	
	2017	**2016**
Other provision expenses (*)	38,221	63,620
Total	**38,221**	**63,620**

(*) The Bank booked TL 30,820 provision for the Resource Support Utilization Fund penalty at the end of December 31, 2016.

17 Income tax expense

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return.

Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, corporate income tax is levied at the rate of 20 % on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the period ended December 31, 2017. However, according to temporary article 10 added to the Corporate Income Tax Law, the rate of 20% shall be applied as 22% for the corporate earnings of the taxation periods of the companies in 2018, 2019 and 2020 (accounting periods starting within the relevant year for companies appointed for the special accounting period).This rate was 20% for the period ended December 31, 2016. 50% of gain from the sale of real estate which are held more than two years in the assets of the Bank and 75% of gain on disposal of subsidiary shares which are held for more than two years in the assets of the Bank are exemption from tax according to Corporate Tax Law in condition with adding these gains into equity or allocating into a specific fund account in the Bank's liabilities for five years In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate applied in 2017 is 20%. (2016: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

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

17 Income tax expense (continued)

The details of income tax expense are as follows:

	12 month period ended December 31,	
	2017	**2016**
Current tax	(475,296)	(208,294)
Deferred tax benefit/(charge) (Note 31)	57,975	(56,582)
Total	**(417,321)**	**(264,876)**
Profit before tax	**2,121,070**	**1,384,935**
Tax calculated based on the current tax rate of 20%	(424,214)	(276,987)
Effect of income not subject to taxation	7,602	24,267
Effect of expenses not deductible for tax purposes	(709)	(12,156)
Income tax expense	**(417,321)**	**(264,876)**

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for Turkish resident companies receiving dividends from who are also Turkish residents or Turkish branches of foreign companies. Income withholding tax applied between April 24, 2003 –July 22, 2006 is 10% and commencing from July 23, 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

The Group offsets current tax assets and current tax liabilities separately for each entity considering the legally enforceable right to set off the recognized amounts. As of December 31, 2017, after the offsetting, the corporate tax payables is TL 419,559 (December 31, 2016, corporate tax payable amounting to TL 196,962) in the accompanying consolidated financial statements.

The advance corporate income tax rate applied in 2017 and 2016 are 20% and 20% respectively.

18 Earnings per share

	December 31, 2017	**December 31, 2016**
Net profit attributable to equity holders of the parent	1,703,554	1,119,083
Net profit attributable to QNB Finansbank ordinary shareholders	1,703,554	1,119,083
Adjusted weighted average number of ordinary shares outstanding	33,500,000,000	31,500,000,000
Basic and diluted earnings per share	0.0509	0.0334

The Bank decided to increase its share capital through bonus issue by way of the capitalization of its extraordinary reserves in 2017 and 2016.

The Group's weighted average number of ordinary shares outstanding for 2017 and 2016 has been adjusted as if the capital increase through bonus issue in 2017 was made at the beginning of the earliest year presented. Accordingly for the purpose of earnings per share calculation, the weighted average number of ordinary shares outstanding is 33,500,000,000 for 2017 and 2016.

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

19 Cash and balances with T.R. Central Bank

	December 31, 2017	December 31, 2016
Cash in hand	1,012,052	1,064,062
Balances with T.R. Central Bank- Unblocked	4,665,286	2,559,099
Balances with T.R. Central Bank- Blocked	10,204,938	9,480,730
Total	**15,882,276**	**13,103,891**

As of December 31, 2017, the reserve rates for the reserve deposits at the Central Bank of Turkey for Turkish Lira are implemented within an interval from 4% to 10.5% depending on the maturity of the deposits (December 31, 2016 – 4% to 10.5%) and the reserve rates for the foreign currency liabilities are within an interval from 4% to 24% depending on the maturity of the deposits (December 31, 2016 – 4.5% to 24.5%).

20 Due from banks

	December 31, 2017	December 31, 2016
Time deposits with banks	1,427,234	588,591
Demand deposit with banks	360,030	214,281
Securities purchased under agreements to resell	115,504	1,547,549
Total	**1,902,768**	**2,350,421**

The Group does not have any past due or impaired balances due from banks.

The amount of collaterals given for derivative transactions, which are included above, as of December 31, 2017 and 2016 are TL 359,216 and TL 370,703 , respectively.

21 Financial assets at fair value through profit or loss

	December 31, 2017	December 31, 2016
Turkish corporate bonds held for trading	8	50
Turkish government bonds held for trading	53,690	33,215
Equity shares held for trading	19,572	17,546
Mutual funds held for trading	16,120	-
Total	**89,390**	**50,811**

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

22 Derivative financial instruments

December 31, 2017	Amount	Assets	Liabilities
Derivatives held for trading:			
Interest rate derivatives	121,085,274	2,395,772	(1,946,369)
Foreign exchange derivatives	20,017,968	108,265	(123,773)
Other types of derivatives	209,931	105	(102)
Fair value hedging derivatives:			
Interest rate derivatives	20,296,634	1,993,493	(221,145)
Cash flow hedging derivatives:			
Interest rate derivatives	35,535,345	944,633	(314,929)
Total	**197,145,151**	**5,442,268**	**(2,606,318)**

December 31, 2016	Amount	Assets	Liabilities
Derivatives held for trading:			
Interest rate derivatives	94,312,895	2,210,686	(1,961,869)
Foreign exchange derivatives	22,068,306	562,924	(639,301)
Other types of derivatives	74,459	388	(334)
Fair value hedging derivatives:			
Interest rate derivatives	15,094,983	2,365,105	(190,559)
Cash flow hedging derivatives:			
Interest rate derivatives	22,704,241	1,078,233	(236,169)
Total	**154,254,884**	**6,217,336**	**(3,028,232)**

The Group’s derivative financial instruments mostly comprise of OTC derivatives.

Cash flow hedge accounting:

Deposits:

To avoid risk from the interest rate changes of deposits that have an average maturity of up to 3 months, the Group implements cash flow hedge accounting with interest rate swaps and cross currency swaps. The Group implements effectiveness tests at the balance sheet dates for hedging purposes; the effective portions are accounted for under equity “Cash flow hedging reserve, net of tax”, whereas the ineffective portions are accounted under net trading income / (expense) and results from investment securities in the statement of profit or loss as defined in IAS 39. As at the balance sheet date, swaps amounting to 5,210,000 TL are subject to hedge accounting as hedging instruments (December 31, 2016 – TL 5,270,130). As a result of the mentioned hedge accounting, the fair value gain from TL swaps before taxes amounting to TL 106,616 are accounted for under equity during the current period (December 31, 2016 – 51,278 TL loss). The ineffective portion of gain amounting to TL 676 (December 31, 2016 – TL 2 gain) is accounted for at the income statement.

As at the balance sheet date, swaps amounting to USD 2,753 million (December 31, 2016 – USD 1,737 million) and EUR 319 million (December 31, 2016 – EUR 139 million) are subject to hedge accounting with USD and EUR deposits. As a result of the mentioned hedge accounting, fair value gains from USD swaps before taxes amounting to TL 121,387 are accounted for under equity during the current period (December 31, 2016 – TL 6,746 gain). The loss amounting to TL 248 for year ended December 31, 2017 (December 31, 2016 – TL 636 loss) for the ineffective portions are accounted for at the statement of profit or loss.

22 Derivative financial instruments (continued)

Float Rate Borrowings:

The group applies cash flow hedge accounting on subloans that has a floating interest rate. The Group implements effectiveness tests at the balance sheet dates for hedging purposes; the effective portions are accounted for under equity "Cash flow hedging reserve, net of tax", whereas the ineffective portions are accounted under net trading income / (expense) and results from investment securities in the statement of profit or loss as defined in IAS 39. As at the balance sheet date, swaps amounting to USD 260 Million are subject to hedge accounting as hedging instruments (December 31, 2016 – none). As a result of the mentioned hedge accounting, the fair value gain from TL swaps before taxes amounting to TL 11,673 are accounted for under equity during the current period (December 31, 2016 – none). The ineffective portion of gain amounting to TL 688 (December 31, 2016 – none) is accounted for at the income statement.

When the cash flow hedge accounting cannot be effectively continued as stated in IAS 39, the fair value hedge accounting is ceased. Effective parts classified under equity due to hedge accounting are amortized through statement of profit or loss until the maturity of swaps in case of ineffectiveness. The Bank transferred loss amounting to TL 1,327 from the equity to the statement of profit or loss due to the swaps that are ceased or whose effectiveness deteriorated during the current period (December 31, 2016 – TL 18,624 gain).

The measurements as of December 31, 2017, hedge of cash flow transactions stated above are determined as effective.

Fair value hedge accounting:
Loans:

The Group's fair value hedges principally consist of cross currency swaps that are used to hedge changes in the fair value of fixed-rate, long-term loans due to movements in market interest rates. The Group records fair value changes on derivatives and related hedged loans designated under fair value hedge under net trading income / (expense) and results from investment securities in the statement of profit or loss. As at the balance sheet date; the mortgage loans amounting to TL 4,757,337 (December 31, 2016 – TL 3,532,426) were subject to hedge accounting by swaps with a nominal of TL 4,973,074 (December 31, 2016 – TL 3,456,411). For the year ended December 31, 2017 the Group recognized a gain of TL 5,235 (December 31, 2016 TL 103,915 gain) due to changes in fair value of hedged items (loans) relating to the hedged risk. This amount was offset by TL 39,696 (December 31, 2016 TL 80,194 loss) fair value loss on derivatives designated for fair value hedge accounting of loans and advances to customers.

When the fair value hedge accounting cannot be effectively continued as stated in IAS 39, the fair value hedge accounting is ceased. The fair value differences of the hedged loans are amortized through statement of profit or loss until the maturity of the hedged loans. The Group has booked the amortization effect amounting to TL 11,895 loss (December 31, 2016 TL 7,429 loss) related to the loans that are ineffective for hedge accounting under "net trading income/ (expense) and results from investment securities" as loss during the current period.

22 Derivative financial instruments (continued)

As at the balance sheet date project finance loans amounting to TL 188,632 (December 31, 2016 – TL 168,103) have been subject to hedge accounting with swaps with a nominal amount of TL 179,136 (December 31, 2016 – TL 160,939). For the year ended December 31, 2017 the Group recognized in the statement of profit or gain TL 2,014 (December 31, 2016 TL 2,379 loss) of fair value loss recognized on hedged items. This amount was offset by fair value gain of TL 818 (December 31, 2016 TL 619 loss) on derivatives designated for fair value hedge accounting of project finance loans.

Investment securities available for sale:
As at the balance sheet date; Eurobonds with a nominal of USD 371.7 million and EUR 75.4 million (December 31, 2016 – USD 378.7 million and EUR 75.8 million) were subject to hedge accounting by interest rate swaps with the same nominal value. For the year ended December 31, 2017 the Group recognized in the statement of profit or loss TL 4,794 (December 31, 2016 TL 5,443 gain) of fair value gains on hedged items (available for sale investments, Eurobonds). This amount was offset by fair value.

Loss of TL 5,739 loss (December 31, 2016 TL 3,002 loss) on derivatives designated for fair value hedge accounting of available for sale investments, Eurobonds.

Bonds issued:

As of the balance sheet date, fixed interest foreign currency bonds with nominal amount of USD 283 million (December 31, 2016 – USD 283 Million) have been subject to hedge accounting for fair value interest rate risk with the same nominal amount of swaps. For the year ended December 31, 2017 the Group recognized in the statement of profit or loss TL 6,402 (December 31, 2016 – TL 7,981 loss) of fair value gain recognized on derivatives designated for fair value hedge accounting of bonds issued amount. This amount was offset by fair value gains of TL 6,669 (December 31, 2016 TL 7,525 gain) on hedged items.

Tangible Assets:

The Group has designated fair value hedge accounting on the currency risk of real estate property which has been bought in foreign currency and has a market value denominated in foreign currency against foreign currency funding. Immovable having a carrying value at an amount of USD 380 million is subjected to hedge accounting with foreign currency issued debt. The Group has recognized cumulative fair value gain of TL 400,552 on hedged item (December 31, 2016 – TL 298,423 gain) and TL 102,128 in the current period from aforementioned real estate property. This exchange difference income will be amortized through the economic life of the real estate property which is the subject of hedging.

Borrowings:

The Bank applies fair value hedge accounting through interest rate swaps aiming to provide hedging from changes in interest rates related to fixed rate foreign currency funds borrowed. Funds borrowed amounting to EUR 30 million (31 December 2016: EUR 30 million) is subjected to hedge accounting with interest rate swaps having the same amount. For the year ended December 31, 2017 the Group recognized in the statement of profit or loss under net trading income/(expense) TL 521 (31 December 2016: TL 2,160) of fair value gains recognized on hedged items and this amount was offset by fair value losses of TL 508 (31 December 2016: TL 2,182) recognized on interest rate swaps.

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

23 Loans and advances to customers

	December 31, 2017	December 31, 2016
Loans and advances to customers at FVTPL	9,950	22,839
Loans and advances to customers at amortized cost	82,103,547	62,349,995
Total	**82,113,497**	**62,372,834**

December 31, 2017	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Neither past due nor impaired	49,800,435	10,979,511	9,628,310	5,062,275	75,470,531
Past due not impaired	3,490,677	1,054,684	1,179,200	522,407	6,246,968
Impaired-collective	876,451	893,791	1,061,835	18,025	2,850,102
Impaired-individual	1,489,928	-	-	-	1,489,928
Total Gross	**55,657,491**	**12,927,986**	**11,869,345**	**5,602,707**	**86,057,529**
Less: Allowance for impairment on loans and advances to customers	(2,125,055)	(807,710)	(1,003,211)	(8,056)	(3,944,032)
Loans and advances to customers	**53,532,436**	**11,950,644**	**11,035,766**	**5,594,651**	**82,113,497**

December 31, 2016	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Neither past due nor impaired	34,604,313	8,014,788	8,134,499	4,566,509	55,320,109
Past due not impaired	3,765,065	1,006,968	1,266,161	548,977	6,587,171
Impaired-collective	507,063	953,593	1,077,873	22,476	2,561,005
Impaired-individual	1,279,922	-	-	-	1,279,922
Total Gross	**40,156,363**	**9,975,349**	**10,478,533**	**5,137,962**	**65,748,207**
Less: Allowance for impairment on loans and advances to customers	(1,641,535)	(765,704)	(959,355)	(8,780)	(3,375,373)
Loans and advances to customers	**38,514,828**	**9,209,645**	**9,519,179**	**5,129,182**	**62,372,834**

Movement in allowance for impairment on loans and advances to customers:

2017	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Balance at January 1	**1,641,535**	**765,704**	**959,355**	**8,780**	**3,375,373**
Impairment losses on loans and advances to customers	879,173	197,782	230,536	(724)	1,306,767
Loans written off / Sales	(395,653)	(155,776)	(186,679)	-	(738,108)
Balance at December 31	**2,125,055**	**807,710**	**1,003,211**	**8,056**	**3,944,032**

2016	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Balance at January 1	**1,040,492**	**830,464**	**1,228,242**	**8,923**	**3,108,121**
Impairment losses on loans and advances to customers	802,079	259,222	336,809	(143)	1,397,966
Loans written off / Sales	(201,036)	(323,982)	(605,696)	-	(1,130,714)
Balance at December 31	**1,641,535**	**765,704**	**959,355**	**8,780**	**3,375,373**

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

23 Loans and advances to customers (continued)

The write-offs and recoveries by categories are as follows:

	12 month period ended December 31,	
	2017	**2016**
Write-offs(*)		
Credit cards	198,110	642,602
Mortgage and consumer loans	155,818	333,587
Corporate loans	399,908	221,780
Total write-offs	**753,836**	**1,197,969**
Recoveries		
Credit cards	-	48,232
Mortgage and consumer loans	58,678	44,503
Corporate loans	13,975	-
Total recoveries made from loans that were written-off	**72,653**	**92,735**

(*) In 2017, legally non-performing loan receivables amounting to TL 745,739 have been sold for TL 69,303 cash.

Level of ratings for loans and advances to customers that are neither past due nor impaired:

2017	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Debtor has a very strong financial structure	9,083,367	1,656,795	1,623,415	1,528,297	13,891,874
Debtor has a good financial structure	19,110,499	7,518,220	4,971,457	1,939,446	33,539,622
Debtor has a moderate financial structure	15,400,795	1,721,169	2,993,890	1,040,772	21,156,626
Debtor has a financial structure which needs attention in medium term	4,669,990	83,327	39,548	553,760	5,346,625
Not Rated	1,535,784	-	-	-	1,535,784
Total	**49,800,435**	**10,979,511**	**9,628,310**	**5,062,275**	**75,470,531**

2016	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Debtor has a very strong financial structure	6,748,887	1,754,521	1,228,991	1,662,844	11,395,243
Debtor has a good financial structure	12,584,077	5,170,798	3,588,544	1,968,303	23,311,722
Debtor has a moderate financial structure	11,017,625	1,014,828	2,855,256	935,362	15,823,071
Debtor has a financial structure which needs attention in medium term	4,047,808	74,641	461,708	-	4,584,157
Not Rated	205,916	-	-	-	205,916
Total	**34,604,313**	**8,014,788**	**8,134,499**	**4,566,509**	**55,320,109**

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

23 Loans and advances to customers (continued)

Ageing analysis of past due but not impaired loans and advances to customers per class of financial statements:

December 31, 2017	Less than 30 days	31-60 days	61-90 days	Total
Corporate	2,371,175	491,246	628,256	3,490,677
Consumer	834,140	184,899	35,645	1,054,684
Credit cards	902,215	212,393	64,592	1,179,200
Mortgage	359,844	126,663	35,900	522,407
Total	**4,467,374**	**1,015,201**	**764,393**	**6,246,968**

December 31, 2016	Less than 30 days	31-60 days	61-90 days	Total
Corporate	2,549,612	436,169	779,284	3,765,065
Consumer	804,768	165,304	36,896	1,006,968
Credit cards	974,112	227,969	64,080	1,266,161
Mortgage	368,245	130,927	49,805	548,977
Total	**4,696,737**	**960,369**	**930,065**	**6,587,171**

Loans and advances to customers at fair value through profit or loss

Loans and advances to customers of the retail banking business have been designated at fair value through profit or loss as the Group manages these loans and advances to customers on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement of these loans and advances to customers are on a fair value basis.

The cumulative change in the fair value of these loans and advances to customers is set out below:

	December 31, 2017	December 31, 2016
Loans and advances at FVTPL	(301)	(89)

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

24 Factoring receivables

	December 31, 2017	December 31, 2016
No later than 1 year	1,345,989	762,085
Later than 1 year	81,783	16,856
Factoring receivables, gross	1,427,772	778,941
Less: Impairment Losses on factoring receivables	(41,793)	(25,869)
Total	**1,385,979**	**753,072**

25 Finance lease receivables

	December 31, 2017	December 31, 2016
Not later than 1 year	2,031,060	3,127,084
Later than 1 year but not later than 5 years	3,009,003	89,675
Later than 5 years	285,800	48,256
Finance lease receivables, gross	**5,325,863**	**3,265,015**
Unearned future finance income on finance leases	(770,049)	(464,295)
Net investment in finance leases	**4,555,814**	**2,800,720**
Less: Impairment losses on finance lease receivables	(81,869)	(95,093)
Finance lease receivables	**4,473,945**	**2,705,627**

The net investment in finance lease receivables is analyzed as follows:

	December 31, 2017	December 31, 2016
Not later than 1 year	1,733,646	2,666,587
Later than 1 year but not later than 5 years	2,558,986	87,428
Later than 5 years	263,182	46,705
Total	**4,555,814**	**2,800,720**

Movements in impairment losses on finance lease receivables:

	2017	2016
Balance at January 1	**(95,093)**	**(65,268)**
Impairment losses on finance lease receivables	(39,846)	(29,825)
Receivables written off(*)	53,070	-
Balance at December 31	**(81,869)**	**(95,093)**

(*) The Company has transferred its finance lease receivables amounting to TL 53,070 to an asset management company through cash based agreement signed on February 28, 2017. Therefore such receivables were written off in the accompanying financial statements.

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

25 Finance lease receivables (continued)

Finance lease receivables

	December 31, 2017	December 31, 2016
Neither past due nor impaired	4,016,758	2,292,869
Past due not impaired	388,065	345,283
Impaired	150,991	162,568
Total Gross	**4,555,814**	**2,800,720**
Less: impairment losses on finance lease receivables	(81,869)	(95,093)
Finance lease receivables	**4,473,945**	**2,705,627**

As of December 31, 2017 and 2016 aging of past due but not impaired finance lease receivables are as follows;

	December 31, 2017	December 31, 2016
Between 1-30 days	288,939	252,532
Between 1-3 months	86,801	65,412
Between 3-12 months	12,325	27,339
Between 1-5 years	-	-
Total	**388,065**	**345,283**

26 Available for sale investments

	December 31, 2017	December 31, 2016
Available-for-sale investment securities:		
Turkish government bonds and treasury bills	8,258,388	6,944,331
Corporate bonds	15,520	38,431
Debt securities	**8,273,908**	**6,982,762**
Equity shares	79,728	53,113
Mutual funds	-	-
Total available-for-sale investment securities	**8,353,636**	**7,035,875**

The movement of available for sale investments is summarized as follows:

	2017	2016
Balance at January 1	**7,035,875**	**5,428,369**
Additions within the year	2,417,929	2,434,879
Foreign exchange differences	277,094	526,685
Disposals (sale and redemption) within the year	(1,713,882)	(1,190,340)
Amortisation of premiums/discounts	38,616	42,408
Gains / (losses) from changes in fair value	237,744	(235,393)
Accrual	60,259	29,267
Balance at December 31	**8,353,636**	**7,035,875**

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

27 Held to maturity investments

	December 31, 2017	December 31, 2016
Held to maturity investment securities:		
Turkish government bonds and treasury bills	6,139,065	4,855,304
Corporate bonds	1,029,599	1,045,203
Debt securities	**7,168,664**	**5,900,507**
Total held to maturity investment securities	**7,168,664**	**5,900,507**

The movement of held to maturity investments is summarized as follows:

	2017	2016
Balance at January 1	**5,900,507**	**3,873,914**
Additions within the year	829,915	1,478,607
Foreign exchange differences	225,503	369,033
Disposals (redemption) within the year	(140,075)	-
Amortisation of premiums/discounts	234,649	166,876
Accruals	118,165	12,077
Balance at December 31	**7,168,664**	**5,900,507**

28 Investments in joint ventures

	2017	2016
Balance at January 1	**101,704**	**110,740**
Additions	-	-
Group's share of profit/(loss) of joint ventures	43,268	(9,041)
Dividends received	(9,593)	-
Other	2	5
Balance at December 31	**135,381**	**101,704**

The Group's joint ventures are as follows:

			% of participation	
Name of joint ventures	**Principal activity**	**Place of incorporation and operation**	**December 31, 2017**	**December 31, 2016**
Bantaş Nakit ve Kıymetli Mal Taşıma ve Güvenlik Hizmetleri A.Ş.	Security Services	Turkey	33.33%	33.33%
Cigna Finans Pension Fund (Cigna Finans)	Pension Fund	Turkey	49.00%	49.00%

The above joint ventures are accounted for using the equity method in these consolidated financial statements.

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

28 Investments in joint ventures (continued)

Summarised financial information in respect of the Group's material joint venture Cigna Finans is set out below:

	31 December,	
Cigna Finans	**2017**	**2016**
Current Assets	437,576	336,694
Non-current assets	20,678	17,397
Current liabilities	177,340	174,645
Non-current liabilities	148,298	88,414
Equity	130,135	55,566

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	356,834	245,111

	2017	**2016**
Revenue	483,221	305,318
Profit for the year	61,759	31,097
Other comprehensive income for the year	(1,002)	(527)
Total comprehensive income for the year	**60,757**	**30,570**
Dividends received from the joint venture during the year	9,593	-

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

28 Investments in joint ventures (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	December 31, 2017	December 31, 2016
Net assets of the joint venture	130,135	55,566
Proportion of the Group's ownership interest in the joint venture	63,766	27,227
Goodwill	-	-
Purchase Price Allocation	160,813	160,813
Impairment	(38,322)	(38,322)
Amortization of Purchase Price Allocation	(63,870)	(57,906)
Carrying amount of the Group's interest in the joint venture	**122,387**	**91,812**

Aggregate information of joint ventures that are not individually material:

Bantaş Nakit ve Kıymetli Mal Taşıma ve Güvenlik Hizmetleri A.Ş	2017	2016
The Group's share of profit for the year	3,955	2,955
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	3,955	2,955
Aggregate carrying amount of the Group's interest in the joint venture	**12,994**	**9,892**

The Group has no share of any contingent liabilities or capital commitments as at 31 December 2017 and 2016.

In accordance with partnership agreement signed between the Bank and Cigna Nederland Gamma BV, the parent of Cigna Finans Emeklilik and Hayat A.Ş., on July 12, 2012 in case the ownership structure of the Bank changes, Cigna Nederland Gamma BV has the right to purchase the shares owned by the Bank. If subject transfer is actualized share transfer will be based on fair value of the shares. As of the report date, there is no official request received from Cigna Nederland Gamma BV in regards to purchase of the shares.

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

29 Intangible assets

Cost	Purchased software	Internally generated software	Total
December 31, 2016	**249,679**	**602,803**	**852,482**
Additions	59,676	106,609	166,285
Disposals and write offs	(6)	-	(6)
Transfers	-	-	-
December 31, 2017	**309,349**	**709,412**	**1,018,761**
Accumulated amortization and impairment			
December 31, 2016	**(183,322)**	**(374,929)**	**(558,251)**
Amortization charge for the year	(26,473)	(89,322)	(115,795)
Transfers	-	-	-
Disposals and write offs	-	-	-
December 31, 2017	**(209,795)**	**(464,251)**	**(674,046)**
Net book value as of December 31, 2017	**99,554**	**245,161**	**344,715**

There was no indication of impairment for the intangible assets.

Cost	Purchased software	Internally generated software	Total
December 31, 2015	**222,233**	**506,774**	**729,007**
Additions	33,237	96,029	129,266
Disposals and write offs	(5,791)	-	(5,791)
Transfers	-	-	-
December 31, 2016	**249,679**	**602,803**	**852,482**
Accumulated amortization and impairment			
December 31, 2015	**(162,500)**	**(291,902)**	**(454,402)**
Amortization charge for the year	(26,280)	(83,027)	(109,307)
Transfers	-	-	-
Disposals and write offs	5,458	-	5,458
December 31, 2016	**(183,322)**	**(374,929)**	**(558,251)**
Net book value as of December 31, 2016	**66,357**	**227,874**	**294,231**

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

30 Property and equipment

Cost	**Land &Buildings**	**Vehicles & Equipment**	**Leasehold Improvements**	**Total**
December 31, 2016	**1,458,142**	**1,124,964**	**440,095**	**3,023,201**
Additions	6,946	131,346	7,468	247,888
Fair value adjustment	102,128	-	-	-
Transfers	-	-	-	-
Disposals and write offs	(843)	(18,537)	(68)	(19,448)
At December 31, 2017	**1,566,373**	**1,237,773**	**447,495**	**3,251,641**
Accumulated depreciation and impairment				
December 31, 2016	**(48,650)**	**(773,372)**	**(346,470)**	**(1,168,492)**
Depreciation charge for the year	(11,537)	(127,424)	(2,757)	(141,718)
Transfers	0	0	0	0
Disposals and write offs	12	18,175	17	18,204
Impairment charge	288	0	0	288
December 31, 2017	**(59,887)**	**(882,621)**	**(349,210)**	**(1,291,718)**
Net book value as of December 31, 2017	**1,506,486**	**355,152**	**98,285**	**1,959,923**

Cost	**Land &Buildings**	**Vehicles & Equipment**	**Leasehold Improvements**	**Total**
December 31, 2015	**1,212,466**	**1,019,492**	**413,847**	**2,645,805**
Additions	6,590	126,422	26,757	159,769
Fair value adjustment(*)	239,378	-	-	239,378
Transfers	-	-	-	-
Disposals and write offs	(292)	(20,950)	(509)	(21,751)
At December 31, 2016	**1,458,142**	**1,124,964**	**440,095**	**3,023,201**
Accumulated depreciation and impairment				
December 31, 2015	**(36,877)**	**(701,061)**	**(308,948)**	**(1,046,886)**
Depreciation charge for the year	(11,828)	(93,429)	(37,562)	(142,819)
Transfers	-	-	-	-
Disposals and write offs	26	21,118	40	21,184
Impairment charge	29	-	-	29
December 31, 2016	**(48,650)**	**(773,372)**	**(346,470)**	**(1,168,492)**
Net book value as of December 31, 2016	**1,409,492**	**351,592**	**93,625**	**1,854,709**

(*)Until December 31, 2014, the Parent Bank has designated fair value hedge accounting through foreign currency fundings to be hedged from fair value changes resulting from currency changes in real estate property which has been bought in foreign currency and has a market value denominated in foreign currency. As of December 31, 2014, aforementioned hedge has been ceased and TL 60,269 fair value foreign currency gain will be amortised through the economic life of the real estate. As of December 31, 2014, the effectiveness tests of abovementioned hedge relationships have been found to be effective.

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

31 Deferred tax assets and liabilities

	December 31, 2017		December 31, 2016	
	Deferred tax		Deferred tax	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Loans and advances to customers	81,892	-	(1,261)	-
Deferred commission income	37,567	-	21,593	-
Plastic card bonus provisions	2,346	-	1,541	-
Employee termination benefits	40,163	-	29,118	-
Vacation pay liability and bonus accrual	37,931	-	42,991	-
Securities and derivatives	(141,672)	-	(35,930)	-
Economic life of property and equipment	(47,749)	-	(40,838)	-
Other temporary differences	31,389	-	53,774	-
Total deferred tax assets/(liabilities)	**41,867**	**-**	**70,988**	**-**

The Group has offset the deferred tax assets and deferred tax liabilities on an entity by entity basis where there is a legally enforceable right to set off the recognized amounts i.e. where a taxpayer may offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Movement of net deferred tax asset / (liability) is presented as follows:

	2017	**2016**
Deferred tax asset / (liability) at January 1	**70,988**	**49,332**
Loans and advances to customers	83,153	6,979
Deferred commission income	15,974	(4,609)
Plastic card bonus provisions	805	2,265
Employee termination benefits	2,714	3,706
Vacation pay liability and bonus accrual	(5,061)	15,613
Securities and derivatives	(10,316)	(116,249)
Economic life of property and equipment	(6,910)	(2,756)
Other temporary differences	(22,384)	38,469
Deferred tax recognized in statement of profit or loss	**57,975**	**(56,582)**
Deferred tax recognized in other comprehensive income	(87,096)	78,238
Deferred tax of acquired subsidiary	-	-
Deferred tax asset / (liability) at December 31	**41,867**	**70,988**

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

31 Deferred tax assets and liabilities(continued)

Since the applicable tax rate has been changed to 22% for the 3 years beginning from 1 January 2018, 22% tax rate is used in the deferred tax calculation of 31 December 2017 for the temporary differences expected to be realized/closed within 3 years (for the years 2018, 2019 and 2020). However, since the corporate tax rate after 2020 is 20%, 20% tax rate is used for the temporary differences expected to be realized/closed after 2020.

Deferred tax recognized in other comprehensive income

	December 31, 2017	**December 31, 2016**
Arising on income and expenses recognized in other comprehensive income:		
Fair value measurement of available-for-sale investments	(41,077)	47,137
Fair value measurement of cash flow hedges	(53,599)	12,631
Actuarial gains / (losses) related to employee benefits	8,330	(506)
Arising on income and expenses reclassified from equity to profit or loss:		
Relating to available-for-sale investments	(1,015)	22,701
Relating to cash flow hedges	265	(3,725)
Total deferred income tax recognized in other comprehensive income	**(87,096)**	**78,238**

32 Other assets

	December 31, 2017	**December 31, 2016**
Prepaid expenses	559,683	478,998
Checks clearance account	72,281	212,792
Assets acquired through foreclosure proceedings	516,424	367,787
Trade receivables	276,829	110,510
VAT and other recoverable taxes	12,566	4,018
Other	59,380	64,126
Total other assets	**1,497,163**	**1,238,231**

33 Due to other banks

	December 31, 2017	**December 31, 2016**
Time deposits due to credit institutions	5,133,440	5,109,409
Securities sold under agreements to repurchase	6,403,251	4,978,586
Interbank deposits	509,609	1,598,090
Demand deposits due to credit institutions	129,278	136,154
Total due to other banks	**12,175,578**	**11,822,239**

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

34 Customer deposits

	December 31, 2017	December 31, 2016
Deposits:		
Individuals	43,002,813	37,577,521
Corporate	22,045,008	14,178,869
Government and agencies	129,711	132,695
Total deposits	**65,177,532**	**51,889,085**
Securities sold to customers under agreements to repurchase	86,865	31,197
Total customer deposits	**65,264,397**	**51,920,282**

35 Debt securities issued

	December 31, 2017	December 31, 2016
Corporate bonds - fixed rate	9,107,988	4,855,929
Corporate bonds- floating rate	1,252,078	1,457,323
Total debt securities issued	**10,360,066**	**6,313,252**

	December 31, 2017		December 31, 2016	
	TRY	**FC**	**TRY**	**FC**
Debt securities issued	4,373,454	5,986,612	1,862,015	4,451,237
	4,373,454	**5,986,612**	**1,862,015**	**4,451,237**

	December 31, 2017
Balance as at 1 January 2017	6,313,252
Proceed during the year	4,917,349
Repayments during the year	(1,149,648)
Other non-cash movements	279,113
Balance as at 31 December 2017	**10,360,066**

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

36 Funds borrowed

	December 31, 2017	December 31, 2016
Subordinated loans - floating rate	3,510,837	3,235,793
Other	18,234,216	11,156,690
Total funds borrowed	**21,745,053**	**14,392,483**

The Bank has USD 910 million subdordinated loans from parent QNB. In accordance with the share purchase agreement signed on 21 December 2015, mentioned subordinated loans was transferred from prior shareholder NBG to QNB as of June 15, 2016 with remaining unchanged all terms and conditions. USD 325 million of existing subordinated loans will mature in 2021, USD 325 million will mature in 2020. The subordinated loan amounting to USD 260 million was renewed with updated maturity in 2027, and converted to Basel III complient debt on May 22, 2017.

	December 31, 2017
Balance as at 1 January 2017	14,392,483
Proceed during the year	11,845,243
Repayments during the year	(6,250,739)
Other non-cash movements	1,758,066
Balance as at 31 December 2017	**21,745,053**

37 Other Provisions

The movement of other provisions is summarized as follows:

2017	**Provision for guarantees**	**Other**	**Total**
Balance at January 1	**37,609**	**74,190**	**111,799**
Charge for the year	8,757	29,464	38,221
Utilized	-	(6,536)	(6,536)
Balance at December 31	**46,366**	**97,118**	**143,484**

2016	**Provision for guarantees**	**Other**	**Total**
Balance at January 1	**27,697**	**50,883**	**78,580**
Charge for the year	9,912	53,708	63,620
Utilized	-	(30,401)	(30,401)
Balance at December 31	**37,609**	**74,190**	**111,799**

Provision for guarantees includes the specific provision for non cash loans that are not indemnified and converted into cash.

Other provisions include other miscellaneous provisions as of December 31, 2017.

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

38 Other liabilities

	December 31, 2017	December 31, 2016
Payables for credit card settlements	2,138,596	1,846,242
Creditors and suppliers	502,697	276,912
Checks payable	256,150	400,611
Blocked accounts	213,704	1,043,495
Payroll related accruals	192,353	150,136
Taxes payable - other than income taxes	191,935	165,899
Credit cards payable	173,130	88,456
Accrued expenses and deferred income	82,193	92,914
Clearance checks	74,216	219,640
Collaterals received	31,088	44,460
Legal fees payable	43,165	28,726
Other	333,319	158,304
Total other liabilities	**4,232,546**	**4,515,795**

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

39 Contingent liabilities and commitments

a. Pending tax inspections

The tax authorities have not yet audited the Group for certain financial years and accordingly their tax obligations for those years may not be considered final. Additional taxes and penalties may be imposed as a result of such tax audits; although the amount cannot be determined at present, it is not expected to have a material effect on the Group's net assets.

b. Credit commitments

In the normal course of business, the Group enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods. Standby letters of credit and financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group. The Group's exposure to credit loss in the events of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments.

The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	December 31, 2017	December 31, 2016
Letters of guarantee	14,518,866	10,806,715
Acceptance credits	3,012,892	1,255,477
Letters of credit	1,783,291	1,121,818
Total non-cash loans	**19,315,049**	**13,184,010**
Other commitments	34,430,217	24,434,728
Credit card limits	17,161,713	16,415,910
Total non-cash loans and commitments	**70,906,979**	**54,034,648**

c. Assets pledged as collaterals

	December 31, 2017	December 31, 2016
Reserve deposits with T.R. Central Bank	13,222,120	11,163,789
Securities given as collateral	1,563,637	1,764,203
Blocked placements at foreign banks	1,403	1,359
Total	**14,787,160**	**12,929,351**

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

39 Contingent liabilities and commitments(continued)

d. Offsetting financial assets and financial liabilities

	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off		Net exposure
				Financial instruments	Fair value of financial collateral	
Financial assets recognised at December 31, 2017						
Derivatives	5,442,268	-	5,442,268	3,905,588	3,905,588	1,536,680
Repurchase agreements and similar arrange-ments	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**5,442,268**	**-**	**5,442,268**	**3,905,588**	**3,905,588**	**1,536,680**
Financial liabilities recognised at December 31, 2017						
Derivatives	2,606,318	-	2,606,318	378,483	378,483	2,227,835
Repurchase agreements and similar arrange-ments	6,479,634	-	6,479,634	7,707,263	7,707,263	(1,227,629)
Other	-	-	-	-	-	-
Total	**9,085,952**	**-**	**9,085,952**	**8,085,746**	**8,085,746**	**1,000,206**
Financial assets recognised at December 31, 2016						
Derivatives	6,217,336	-	6,217,336	4,408,818	4,408,818	1,808,518
Repurchase agreements and similar arrange-ments	1,300,605	-	1,300,605	1,300,605	1,300,605	-
Other	-	-	-	-	-	-
Total	**7,517,941**	-	**7,517,941**	**5,709,423**	**5,709,423**	**1,808,518**
Financial liabilities recognised at December 31, 2016						
Derivatives	3,028,232	-	3,028,232	377,325	377,325	2,650,907
Repurchase agreements and similar arrange-ments	5,009,783	-	5,009,783	5,735,188	5,735,188	(725,405)
Other	-	-	-	-	-	-
Total	**8,038,015**	-	**8,038,015**	**6,112,513**	**6,112,513**	**1,925,502**

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

39 Contingent liabilities and commitments(continued)

e. Operating lease commitments

	December 31, 2017	December 31, 2016
No later than 1 year	168,232	173,436
Later than 1 year and no later than 5 years	446,076	488,274
Later than 5 years	165,323	158,769
Total operating lease commitments	**779,631**	**820,479**

f. Transferred financial assets

As at December 31, 2017 the carrying amount of transferred financial assets, which have been transferred but are subject to continued recognition in full and the associated recognized liabilities are presented in the table below:

	December 31, 2017	
	Carrying amount of transferred assets	Carrying amount of associated liabilities
Securities sold under agreements to repurchase	7,631,184	6,479,634
Total	**7,631,184**	**6,479,634**

	December 31, 2016	
	Carrying amount of transferred assets	Carrying amount of associated liabilities
Securities sold under agreements to repurchase	5,837,963	5,009,783
Total	**5,837,963**	**5,009,783**

As at December 31, 2017 carrying amount of available for sale, held to maturity and trading securities sold under agreements to repurchase are TL 4,368,350 (31 December 2016:TL 3,020,634), TL 3,248,559 (31 December 2016:TL 2,810,237) and TL 14,275 (31 December 2016:TL 7,092) respectively.

f. Assets under Management

The Group manages seven exchange traded funds (31 December 2016: seven) with total fund value of TL 128,399 (31 December 2016: 108,002), seven mutual funds (31 December 2016: fourteen) with total fund value of TL 300,053 (31 December 2016: 517,589), and eleven pension funds (31 December 2016: nine) with total fund value of TL 803,876 (31 December 2016: 667,038). In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

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

40 Share capital issued

Share capital	Number of shares	Amount TL
January 1, 2016	**30,000,000,000**	**3,000,000**
Increase of share capital	1,500,000,000	150,000
December 31, 2016	**31,500,000,000**	**3,150,000**
Increase of share capital	2,000,000,000	200,000
December 31, 2017	**33,500,000,000**	**3,350,000**

On August 21, 2017, the paid in capital of the Bank increased from TL 3,150,000 to TL 3,350,000 within the registered capital ceiling. The increase was made through capitalization of extraordinary reserves in the amount of TL 200,000.

41 Reserves and retained earnings

2017	Legal Reserves	Other Capital Reserves and Retained Earnings	Total
Balance at January 1	**493,226**	**8,365,705**	**8,858,931**
Issue of share capital	-	(200,000)	(200,000)
Transfer from retained earnings	62,636	(62,636)	-
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries	-	-	-
Dividends paid	-	-	-
Profit for the year	-	1,703,554	1,703,554
Balance at December 31	**555,862**	**9,806,623**	**10,362,485**

2016	Legal Reserves	Other Capital Reserves and Retained Earnings	Total
Balance at January 1	**456,451**	**7,376,747**	**7,833,198**
Issue of share capital	-	(150,000)	(150,000)
Transfer from retained earnings	36,775	(36,775)	-
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries	-	56,650	56,650
Dividends paid	-	-	-
Profit for the year		1,119,083	1,119,083
Balance at December 31	**493,226**	**8,365,705**	**8,858,931**

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.

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

41 Reserves and retained earnings (continued)

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profit at the rate of 5%, until the total reserve reaches a maximum of 20% of the Bank'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.

Movements of Unrealized Gains/Losses on Available for Sale Investments, Net of Tax

	2017	2016
Balance at January 1	**(420,153)**	**(141,093)**
Net change in fair value	237,744	(235,393)
Net amount transferred to profit or loss	(5,073)	(113,505)
Tax effect of net gains/losses on AFS (Note 31)	(42,093)	69,838
Total	**(229,575)**	**(420,153)**

Movements of Cash Flow Hedges, Net of Tax

	2017	2016
Balance at January 1	**45,550**	**81,175**
Net change in fair value	238,303	(25,907)
Net amount transferred to profit or loss	1,327	(18,624)
Tax effect of net gains/losses on cash flow hedges	(53,333)	8,906
Total	**231,847**	**45,550**

42 Dividends

The dividends declared and paid by the Group, on its shares with respect to the profits for the prior periods indicated; are as follows:

	2017	2016
Dividends in the form of bonus shares	200,000	150,000

Each of the foregoing amounts was distributed in the subsequent periods.

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

43 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of the following balances;

	December 31, 2017	December 31, 2016
Cash and balances with T.R. Central Bank	4,712,823	4,005,912
Balances with T.R Central Bank	3,700,771	2,941,850
Cash on hand	1,012,052	1,064,062
FVTPL with original maturities of less than three months	-	-
Due from banks with original maturities of less than three months	1,376,473	1,904,074
Total cash and cash equivalents	**6,089,296**	**5,909,986**

44 Related - party balances and transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2017 and 2016 are presented below. a. Balances and transactions with members of the Board of Directors and the key management of the Group

The Group entered into banking transactions with members of the Board of Directors and key management of the Bank and other Group companies, as well as with the close members of family and entities controlled or jointly controlled by those persons, in the normal course of business. The list of the members of the Board of Directors of the Bank is shown under Note 1 General Information.

	December 31, 2017	December 31, 2016
Assets		
Loans and advances to customers	409	497
Liabilities		
Customer deposits	68,269	82,768

	12 month period ended December 31	
	2017	**2016**
Statement of profit or loss		
Interest income	53	47
Fee and commission income	4	4
Interest expense	4,680	3,967

Compensation of the members of the Board of Directors and the key management of the Group

The members of Board of Directors and management received remuneration and benefits totaling approximately TL 94,806 as of December 31, 2017, (December 31, 2016 – TL 74,883) comprising mainly of salaries and other short-term benefits.

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

44 Related - party balances and transactions (continued)

b. Balances and transactions with shareholders

	December 31, 2017	December 31, 2016
Assets		
Due from banks	-	-
Derivative financial assets(*)	-	-
Liabilities		
Due to other banks	13,784	4,609
Derivative financial liabilities(*)	-	-
Funds borrowed- Subordinated loans(**)	3,510,837	3,235,793
Funds borrowed-Other(**)	414,893	2,142,273
Off-Balance		
Non-cash loans	17,867	7,371

	12 month period ended December 31,	
	2017	2016
Statement of profit or loss		
Interest income	-	-
Fee and commission income	-	17
Interest expense	201,713	103,777
Fee and commission expense	-	1
Net trading income and results from investment securities	-	-

(*) The amounts refer to fair values of the derivative transactions presented at the consolidated statement of financial position as of the balance sheet date.
(**) Please refer to Note 37.

The Group has not pledged any guarantees for the above transactions.

c. Other related party (other companies of QNB Group) balances and transactions

Transactions between the other related parties are as follows:

	December 31, 2017	December 31, 2016(**)
Assets		
Loans and advances to customers	-	1,179
Derivative financial assets (*)	-	-
Liabilities		
Due to other banks	-	-

	12 month period ended December 31,	
	2017	2016
Statement of profit or loss		
Interest income	-	-
Fee and commission income	-	-
Net trading income and results from investment securities	-	-

(*) The amounts refer to fair values of the derivative transactions presented at the consolidated statement of financial position as of the balance sheet date.

d. Balances and transactions with subsidiaries

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank have been eliminated on consolidation not disclosed in this note.

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

45 Group consolidated companies

		% Participation	
Name	**Place of Incorporation**	**December 31, 2017**	**December 31, 2016**
Finans Faktoring Hizmetleri A.Ş. (Finans Factoring)	Turkey	100.00%	100.00%
Finans Yatırım Menkul Degerler A.Ş. (Finans Invest)	Turkey	100.00%	100.00%
Finans Portfoy Yonetimi A.Ş. (Finans Portfolio Asset Management)	Turkey	100.00%	100.00%
Finans Finansal Kiralama A.Ş. (Finans Leasing)	Turkey	99.40%	99.40%
PSA Finansman A.Ş. (Consumer Financing)	Turkey	100.00%	100.00%
Ibtech Uluslararası Bilişim ve İletişim Teknolojileri Araştırma, Geliştirme, Danışmanlık, Destek San. ve Tic. A.Ş. (IBTech)	Turkey	99.99%	99.99%
E-Finans Elektronik Ticaret ve Bilişim Hizmetleri A.Ş.	Turkey	51.00%	51.00%
Bosphorus Financial Services(*)	Cayman Islands	100.00%	100.00%
Istanbul Bond Company(*)	Luxembourg	100.00%	100.00%

(*) Structured Entity.

46 Disposal of Subsidiaries

None.

47 Acquisition of Subsidiaries

None.

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

48 Subsequent events

The table below shows the bond issuances:

Value Date	Nominal Value	Interest Rate	Maturity
05.01.2018	185,200	14.20%	88
05.01.2018	329,650	14.50%	84
12.01.2018	227,550	14.45%	84
18.01.2018	396,900	14.35%	75
19.01.2018	90,000	14.60%	175
19.01.2018	150,500	14.35%	84
24.01.2018	160,900	14.20%	83
26.01.2018	103,200	14.35%	84
31.01.2018	294,000	14.31%	92
02.02.2018	168,400	14.35%	77
07.02.2018	120,000	14.22%	97
09.02.2018	203,340	14.35%	77
16.02.2018	51,700	14.55%	175
16.02.2018	82,900	14.20%	77
21.02.2018	117,900	14.22%	64
23.02.2018	109,500	14.30%	77
27.02.2018	157,818	14.22%	92
01.03.2018	54,990	14.30%	78
07.03.2018	153,000	14.17%	92
09.03.2018	167,000	14.30%	77
15.03.2018	43,500	14.30%	78
16.03.2018	225,800	14.17%	83
23.03.2018	100,000	14.40%	77
30.03.2018	311,200	14.40%	84
30.03.2018	50,016	14.22%	47
05.04.2018	427,000	14.31%	97
06.04.2018	161,550	14.40%	119

The meeting of Board of Directors was held on 22 February 2018 for dividend distribution. Below please find the details:

To distribute the net profit of TL 1.603.440.787 -, which was calculated on the basis of the Bank's 2017 financial statements by deducting the taxes payable, as follows in accordance with Article 26 of Articles of Association of the Bank:

General Statutory Reserve	TL 80.172.039
First Dividend to Shareholders	TL 100.000.000
General Reserve	TL 1.423.268.748
Total	**TL 1.603.440.787**

To distribute the first gross dividend to shareholders amounting to TL 100.000.000 as cash dividend, which shall be commenced on 19.06.2018, the Board shall be authorized to carry out mentioned transactions,