

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS
AND AUDIT REPORT AT 31 DECEMBER 2017,
SEE NOTE I OF SECTION THREE**

HSBC BANK A.Ş.

**PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH AUDIT REPORT AT 31 DECEMBER 2017**



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH
(See Note I of Section Three)
INDEPENDENT AUDITOR'S REPORT**

To the General Assembly of HSBC Bank A.Ş.;

A. Audit of the Unconsolidated Financial Statements

1. Opinion

We have audited the accompanying unconsolidated financial statements of HSBC Bank A.Ş. (the "Bank"), which comprise the statement of unconsolidated balance sheet as at 31 December 2017, unconsolidated income statement, unconsolidated statement of income and expense items under shareholders' equity, unconsolidated statement of changes in shareholders' equity, unconsolidated statement of cash flows for the year then ended and the notes to the unconsolidated financial statements and a summary of significant accounting policies and unconsolidated financial statement notes.

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2017, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Turkish Accounting Standards ("TAS") for those matters not regulated by the aforementioned regulations.

2. Basis for Opinion

Our audit was conducted in accordance with the "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements" section of our report. We hereby declare that we are independent of the Bank in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the unconsolidated financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.



3. Responsibilities of Management and Those Charged with Governance for the Unconsolidated Financial Statements

The Bank management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with the BRSA Accounting and Financial Reporting Legislation, and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

4. Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error.

Misstatements 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 unconsolidated financial statements.



As part of an independent audit conducted in accordance with “Regulation on Independent Audit of Banks” published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the unconsolidated 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.
- Assess the 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 Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank 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 unconsolidated 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 independent auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Bank's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Bank's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

Additional Paragraph for Convenience Translation

The effects of differences between accounting principles and standards explained in detail in Section Three and accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

A handwritten signature in blue ink, appearing to read "Zeynep Uras", is written over the printed name and title.

Zeynep Uras, SMMM
Partner

Istanbul, 21 February 2018



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED
FINANCIAL STATEMENTS AND AUDITED REPORT
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE

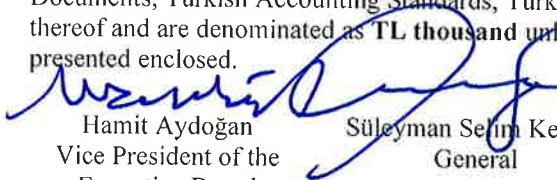
UNCONSOLIDATED FINANCIAL REPORT OF HSBC BANK A.Ş.
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2017

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34394, İstanbul
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Web-site : www.hsbc.com.tr
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The unconsolidated year-end financial report prepared in accordance with Communiqué on the Financial Statements and the Related Disclosures and Footnotes to be Publicly Announced as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT


The unconsolidated financial reports and explanations and footnotes in this report are prepared in accordance with the Regulation on Banks' Accounting Applications and Principles and Procedures Concerning the Preservation of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and annexes interpretations thereof and are denominated as **TL thousand** unless otherwise specified, are held subject to independent audit and are presented enclosed.



Hamit Aydoğan
Vice President of the
Executive Board


Süleyman Selim Kervancı
General
Manager


Burçin Ozan
Financial Reporting
Assistant General
Manager


Yetiliozan Gül
Group Head


Robert Adrian Underwood
Head of
Audit Committee


Lutfiye Yeşim Uçtum
Member of
Audit Committee

Information about the responsible personnel whom questions may be asked:

Name-Surname/Title : Burcu Eker/Manager
Tel : (0212) 376 4157
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**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

SECTION ONE

GENERAL INFORMATION ABOUT THE BANK

**I. BANK’S FOUNDATION DATE, START-UP STATUS, HISTORY REGARDING THE
CHANGES IN THIS STATUS**

It has been approved by the decision of the Council of Ministers dated 27 June 1990 and numbered 90/644 that HSBC Bank A.Ş. (“The Bank”) was established to conduct banking activities and the articles of association published in the Official Gazette No. 2611 dated 18 September 1990. The bank is a foreign-capitalized bank which has been registered in accordance with the Law on Encouraging Foreign Investments numbered 6224. On 20 September 2001 the ‘Share Sales Agreement’ regarding the sale of all shares of Demirbank T.A.Ş. which was under in Saving Deposit Insurance Fund was signed by the Bank’s main shareholder HSBC Bank Plc. According to this agreement the required procedures shall be completed by 31 October 2001 and all shares of the Demirbank T.A.Ş., together with a part of the assets and liabilities shall be transferred to HSBC Bank Plc on 31 October 2001. In 14 December 2001, Demirbank T.A.Ş. and the Bank merged under the name of HSBC Bank Anonim Şirketi and continued its activities. On 19 September 2002, the Bank has signed the share sales agreement with Benkar Tüketici Finansmanı ve Kart Hizmetleri A.Ş. (“Benkar”) and acquired all shares of Benkar. On 25 December 2002 according to both Benkar’s and the Bank’s board of directors’ minute all assets and liabilities of Benkar is transferred to the Bank. Based on the approval of the Banking Regulation and Supervision Agency dated 21 June 2017, 10,01% share of HSBC Bank Plc.’s 100% ownership of the Bank’s capital was transferred to HSBC Bank Middle East Limited and remaining 89,99% share of HSBC Bank Plc. was transferred to HSBC Middle East Holdings B.V. through share transfer agreement dated 29 June 2017.

**II. EXPLANATION ABOUT THE BANK’S CAPITAL STRUCTURE, SHAREHOLDERS OF THE
BANK WHO ARE IN CHARGE OF THE MANAGEMENT AND/OR AUDITING OF THE
BANK DIRECTLY OR INDIRECTLY, CHANGES IN THESE MATTERS (IF ANY) AND THE
GROUP THAT THE BANK BELONGS TO**

As of 31 December 2017, the Bank’s nominal capital amounting to TL 652.290 is dividend to 65.229.000.000 shares with a nominal value of TL 0,01. The share capital of the Bank has been fully paid and registered. Based on the approval of the Banking Regulation and Supervision Agency dated 21 June 2017, 10,01% share of HSBC Bank Plc.’s 100% ownership of the Bank’s capital was transferred to HSBC Bank Middle East Limited and remaining 89,99% share of HSBC Bank Plc. was transferred to HSBC Middle East Holdings B.V. through share transfer agreement dated 29 June 2017.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

III. EXPLANATION ON THE BOARD OF DIRECTORS, MEMBERS OF THE AUDIT COMMITTEE, PRESIDENT AND EXECUTIVE VICE PRESIDENTS, IF AVAILABLE, SHARES OF THE BANK THEY POSSESS AND THEIR AREAS OF RESPONSIBILITIES

<u>Title</u>	<u>Name</u>	<u>Responsibility</u>	<u>Education</u>
Chairman of the Board:	David Gordon ELDON	Chairman	Undergraduate
Deputy Chairman of the Board:	Hamit AYDOĞAN	Deputy Chairman	Undergraduate
Board of Directors(**):	Süleyman Selim KERVANCI	Member and CEO	Graduate
	Robert Adrian UNDERWOOD (*)	Member	Undergraduate
	David Anthony HARNETT	Member	Undergraduate
	Mehmet Gani SÖNMEZ	Member	Undergraduate
	Edward Michael FLANDERS	Member	Undergraduate
	Lütfiye Yeşim UÇTUM	Member	Undergraduate
	Georges EL HEDERY (***)	Member	Graduate
CEO:	Süleyman Selim KERVANCI	CEO	Graduate
Head of Internal Audit:	Umut PASİN	Head of Internal Audit	Undergraduate
Deputy CEO:	Necdet Murat ŞARSEL Rüçhan ÇANDAR	Credit and Risk Technology and Services	Graduate Graduate
Executive Vice Presidents(****):	Necdet Murat ŞARSEL	Credit and Risk	Graduate
	Hulusi HOROZOĞLU	Corporate Investment Banking	Graduate
	Ayşe YENEL	Retail Banking	Undergraduate
	Burçin OZAN	Finance	Undergraduate
	Rüçhan ÇANDAR	Technology and Services	Graduate
	Funda TEMOÇİN AYDOĞAN (*****)	Human Resources	Undergraduate
Audit Committee (*****):	Robert Adrian UNDERWOOD (*)	Head of the Audit Committee	Graduate
	Lütfiye Yeşim UÇTUM	Member of the Audit Committee	Undergraduate

The individuals mentioned above do not possess any share of the Bank.

(*) Per the Board Decision no.13961 dated 14 November 2017 Paul HAGEN resigned from his duty as a member of the Board of Directors and as of 30 November 2017 Robert Adrian UNDERWOOD was assigned. Per the Board Decision no.13977 dated 15 December 2017 Ian Simon JENKINS resigned from his duty as President of the Audit Committee and Robert Adrian UNDERWOOD was appointed in his place as of 15 December 2017.

(**) Per the Board Decision no: 13997 dated 15 December 2017 Ian Simon JENKINS has resigned from his duty as a member of Board of Directors.

(***) Per the Board Decision no: 13962 dated 14 November 2017 James Alasdair EMMETT resigned from his duty as a member of Board of Directors effective as of 30 November 2017 and Georges EL HEDERY was assigned in his place as of 30 November 2017.

(****) Per the Board Decision no: 13966 dated 27 November 2017 Ali Batu KARAALİ resigned from his duty as Executive Vice President as of 30 November 2017.

(*****) Per the Board Decision no: 13987 dated 29 December 2017 Funda TEMOÇİN AYDOĞAN was assigned as Human Resources Executive Vice President as of 29 December 2017.

(******) Per the Board Decision no: 13961 dated 14 November 2017 Paul HAGEN resigned from his duty as a member of the Board of Directors as of 30 November 2017.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

IV. INFORMATION ON INDIVIDUALS OR INSTITUTIONS OWNING THE PREFERRED SHARES OF THE BANK

Name/Commercial Title	Share Amounts (Nominal) (*)	Share Percentages	Paid-in capital (Nominal) (*)	Unpaid Portion
HSBC Middle East Holdings B.V.	586.995.771	89,99 %	586.995.771	-
HSBC Bank Middle East Limited	65.294.226	10,01 %	65.294.226	-

(*) The amounts are expressed in full TL.

V. SUMMARY INFORMATION ON THE BANK'S ACTIVITIES AND SERVICES

The Bank's activities in accordance with related regulations and the section three of the articles of association of the Bank summarized are as follows;

- To accept all kinds of deposits both in Turkish Lira and in foreign currency,
- To provide funds in Turkish Lira and foreign exchange, for own use or as an intermediary,
- To launch cash and non-cash loans,
- To perform discount and purchase activities,
- To perform order transmissions brokerage, transactions brokerage, portfolios brokerage, restricted custody and general custody activities in accordance with Capital Markets regulations,
- To perform factoring activities,
- To perform payment services activities.

In addition to regular banking operations in accordance to the articles of association, the Bank also provides insurance intermediary services as an agency of Axa Sigorta, Zurich Sigorta, Allianz Hayat ve Emeklilik, Allianz Sigorta, Gulf Sigorta, Euler Hermes, JLT Sigorta and Anadolu Hayat Emeklilik through its branches and investment intermediary services as an agency of HSBC Yatırım.

As of 31 December 2017, the Bank has 82 branches dispersed throughout the country (31 December 2016: 86 branches and 4 branches operating abroad).

As of 31 December 2017, the number of employees of the Bank is 2.478 (31 December 2016: 3.188).

VI. OTHER MATTERS

Unless otherwise stated, the financial statements and explanations and notes regarding the financial statements have been prepared in thousands of Turkish Lira.

VII. DIFFERENCES BETWEEN THE COMMUNIQUE ON PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF BANKS AND TURKISH ACCOUNTING STANDARDS AND SHORT EXPLANATION ABOUT INSTITUTIONS SUBJECT TO FULL CONSOLIDATION METHOD OR PROPORTIONAL CONSOLIDATION AND INSTITUTIONS WHICH ARE DEDUCTED FROM EQUITY OR NOT INCLUDED IN THESE THREE METHODS

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards, the non-financial associates, HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş. are not consolidated in the consolidated financial statements prepared in accordance with TAS based on line-by-line method. The Bank's subsidiary HSBC Yatırım ve Menkul Değerler A.Ş. is included in the scope of consolidation by line-by-line method. HSBC İnternet ve Telekomunikasyon Hizmetleri A.Ş.'s Liquidation process has been finalized on 16 August 2017.

VIII. THE EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES ON THE TRANSFER OF SHAREHOLDERS' EQUITY BETWEEN THE PARENT BANK AND ITS SUBSIDIARIES OR REIMBURSEMENT OF LIABILITIES

None.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

SECTION TWO

UNCONSOLIDATED FINANCIAL STATEMENTS

- I. Balance Sheet - Assets**
- I. Balance Sheet - Liabilities**
- II. Statement of Off-Balance Sheet Commitments**
- III. Statement of Income**
- IV. Statement of Profit and Loss Items Recognised Under Shareholders’ Equity**
- V. Statement of Changes in Shareholders’ Equity**
- VI. Statement of Cash Flows**
- VII. Statement of Profit Distribution**

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

UNCONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016 (STATEMENT OF FINANCIAL POSITION)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

**SECTION TWO
UNCONSOLIDATED FINANCIAL STATEMENTS**

I. BALANCE SHEET	ASSETS	Note (Section Five I)	Audited Current Period (31.12.2017)			Audited Prior Period (31.12.2016)		
			TL	FC	Total	TL	FC	Total
			I. CASH BALANCES WITH THE CENTRAL BANK	(I-a)	1.970.986	1.932.469	3.903.455	179.737
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT or LOSS (Net)	(I-b)	419.646	526.987	946.633	641.948	337.824	979.772	
2.1 Trading Financial Assets		419.646	526.987	946.633	641.948	337.824	979.772	
2.1.1 Government Debt Securities		232.633	20.381	253.014	39.006	24.551	63.557	
2.1.2 Share Certificates		-	-	-	-	-	-	
2.1.3 Trading Derivative Financial Assets		181.593	506.606	688.199	594.535	313.273	907.808	
2.1.4 Other Marketable Securities		5.420	-	5.420	8.407	-	8.407	
2.2 Financial Assets Designated at Fair Value through Profit or (Loss)		-	-	-	-	-	-	
2.2.1 Government Debt Securities		-	-	-	-	-	-	
2.2.2 Share Certificates		-	-	-	-	-	-	
2.2.3 Loans		-	-	-	-	-	-	
2.2.4 Other Marketable Securities		-	-	-	-	-	-	
III. BANKS	(I-c)	821	343.112	343.933	42.060	877.827	919.887	
IV. MONEY MARKETS		210.220	1.584.745	1.794.965	-	4.372.998	4.372.998	
4.1 Interbank Money Market Placements		-	-	-	-	-	-	
4.2 Receivables from Istanbul Stock Exchange Money Market		-	-	-	-	-	-	
4.3 Receivables from Reverse Repurchase Agreements		210.220	1.584.745	1.794.965	-	4.372.998	4.372.998	
V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)	(I-d)	1.353.290	8.874	1.362.164	1.260.694	2.435	1.263.129	
5.1 Share Certificates		4.225	8.874	13.099	4.225	2.435	6.660	
5.2 Government Debt Securities		1.349.065	-	1.349.065	1.256.469	-	1.256.469	
5.3 Other Marketable Securities		-	-	-	-	-	-	
VI. LOANS AND RECEIVABLES	(I-e)	10.626.672	4.585.932	15.212.604	10.181.534	3.973.211	14.154.745	
6.1 Loans		10.350.888	4.585.932	14.936.820	9.732.005	3.973.112	13.705.117	
6.1.1 Loans to Bank's Risk Group	(VII)	-	5.338	5.338	-	7.404	7.404	
6.1.2 Government Debt Securities		-	-	-	-	-	-	
6.1.3 Other		10.350.888	4.580.594	14.931.482	9.732.005	3.965.708	13.697.713	
6.2 Non-Performing Loans		863.151	-	863.151	1.430.741	165	1.430.906	
6.3 Specific Provisions (-)		587.367	-	587.367	981.212	66	981.278	
VII. FACTORING RECEIVABLES		394.213	-	394.213	476.308	-	476.308	
VIII. INVESTMENT SECURITIES HELD-TO-MATURITY (Net)	(I-f)	-	-	-	-	-	-	
8.1 Government Debt Securities		-	-	-	-	-	-	
8.2 Other Marketable Securities		-	-	-	-	-	-	
IX. INVESTMENTS IN ASSOCIATES (Net)	(I-g)	-	-	-	-	-	-	
9.1 Associates Consolidated Based on Equity Method		-	-	-	-	-	-	
9.2 Unconsolidated		-	-	-	-	-	-	
9.2.1 Financial Investments in Associates		-	-	-	-	-	-	
9.2.2 Non-financial Investments in Associates		-	-	-	-	-	-	
X. SUBSIDIARIES (Net)	(I-h)	34.973	-	34.973	35.023	-	35.023	
10.1 Unconsolidated Financial Subsidiaries		34.753	-	34.753	34.753	-	34.753	
10.2 Unconsolidated Non-financial Subsidiaries		220	-	220	270	-	270	
XI. JOINT VENTURES (Net)	(I-i)	-	-	-	-	-	-	
11.1 Accounted Based on Equity Method		-	-	-	-	-	-	
11.2 Unconsolidated		-	-	-	-	-	-	
11.2.1 Financial Joint Ventures		-	-	-	-	-	-	
11.2.2 Non-financial Joint Ventures		-	-	-	-	-	-	
XII. FINANCIAL LEASE RECEIVABLES (Net)	(I-j)	-	-	-	-	-	-	
12.1 Financial Lease Receivables		-	-	-	-	-	-	
12.2 Operating Lease Receivables		-	-	-	-	-	-	
12.3 Other		-	-	-	-	-	-	
12.4 Unearned Income (-)		-	-	-	-	-	-	
XIII. HEDGING DERIVATIVE FINANCIAL ASSETS	(I-k)	-	-	-	69.454	-	69.454	
13.1 Fair Value Hedge		-	-	-	-	-	-	
13.2 Cash Flow Hedge		-	-	-	69.454	-	69.454	
13.3 Foreign Net Investment Hedge		-	-	-	-	-	-	
XIV. PROPERTY AND EQUIPMENT (Net)	(I-l)	82.671	-	82.671	81.598	-	81.598	
XV. INTANGIBLE ASSETS (Net)	(I-m)	147.758	-	147.758	127.701	-	127.701	
15.1 Goodwill		-	-	-	-	-	-	
15.2 Other		147.758	-	147.758	127.701	-	127.701	
XVI. INVESTMENT PROPERTIES (Net)	(I-n)	-	-	-	-	-	-	
XVII. TAX ASSET		163.605	-	163.605	3.743	-	3.743	
17.1 Current Tax Asset		17.340	-	17.340	3.743	-	3.743	
17.2 Deferred Tax Asset	(I-o)	146.265	-	146.265	-	-	-	
XVIII. ASSETS HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(I-p)	1.690	-	1.690	2.742	-	2.742	
18.1 Held for sale Purposes		1.690	-	1.690	2.742	-	2.742	
18.2 Related to Discontinued Operations		-	-	-	-	-	-	
XIX. OTHER ASSETS	(I-r)	100.897	138.362	239.259	96.885	16.511	113.396	
TOTAL ASSETS		15.507.442	9.120.481	24.627.923	13.199.427	11.169.989	24.369.416	

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

UNCONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016 (STATEMENT OF FINANCIAL POSITION)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL".))

I. BALANCE SHEET	Note (Section Five II)	Audited Current Period (31.12.2017)			Audited Prior Period (31.12.2016)		
		TL	FC	Total	TL	FC	Total
		LIABILITIES					
I. DEPOSITS	(II-a)	4.802.781	11.566.934	16.369.715	6.009.798	9.140.222	15.150.020
1.1 Deposits of Bank's risk group	(VII)	82.773	8.165	90.938	159.308	7.914	167.222
1.2 Other		4.720.008	11.558.769	16.278.777	5.850.490	9.132.308	14.982.798
II. TRADING DERIVATIVE FINANCIAL LIABILITIES	(II-b)	207.234	531.945	739.179	24.587	642.671	667.258
III. BORROWINGS	(II-d)	818.610	1.786.117	2.604.727	212.631	2.128.378	2.341.009
IV. MONEY MARKETS		-	-	-	531.938	-	531.938
4.1 Funds from Interbank Money Market		-	-	-	-	-	-
4.2 Funds from Istanbul Stock Exchange Money Market		-	-	-	-	-	-
4.3 Funds Provided Under Repurchase Agreements	(II-c)	-	-	-	531.938	-	531.938
V. MARKETABLE SECURITIES ISSUED (Net)		-	-	-	-	-	-
5.1 Bills		-	-	-	-	-	-
5.2 Asset Backed Securities		-	-	-	-	-	-
5.3 Bonds		-	-	-	-	-	-
VI. FUNDS		-	-	-	-	-	-
6.1 Borrower Funds		-	-	-	-	-	-
6.2 Other		-	-	-	-	-	-
VII. MISCELLANEOUS PAYABLES		249.738	13.693	263.431	338.026	4.337	342.363
VIII. OTHER LIABILITIES	(II-e)	246.521	15.681	262.202	236.802	20.605	257.407
IX. FACTORING PAYABLES		-	-	-	-	-	-
X. FINANCIAL LEASE PAYABLES (Net)	(II-f)	-	-	-	-	-	-
10.1 Financial Lease Payables		-	-	-	-	-	-
10.2 Operational Lease Payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred Financial Lease Expenses (-)		-	-	-	-	-	-
XI. HEDGING DERIVATIVE FINANCIAL LIABILITIES	(II-g)	-	-	-	-	-	-
11.1 Fair Value Hedge		-	-	-	-	-	-
11.2 Cash Flow Hedge		-	-	-	-	-	-
11.3 Foreign Net Investment Hedge		-	-	-	-	-	-
XII. PROVISIONS	(II-h)	679.488	1.585	681.073	774.225	900	775.125
12.1 General Loan Loss Provisions		430.929	-	430.929	481.729	-	481.729
12.2 Restructuring Provisions		85.965	-	85.965	127.051	-	127.051
12.3 Reserve for Employee Rights		63.516	-	63.516	54.752	-	54.752
12.4 Insurance Technical Provisions (Net)		-	-	-	-	-	-
12.5 Other Provisions		99.078	1.585	100.663	110.693	900	111.593
XIII. TAX LIABILITY	(II-i)	42.466	-	42.466	43.317	-	43.317
13.1 Current Tax Liability		42.466	-	42.466	43.317	-	43.317
13.2 Deferred Tax Liability		-	-	-	-	-	-
XIV. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(II-j)	-	-	-	-	-	-
14.1 Held for Sale Purpose		-	-	-	-	-	-
14.2 Related to Discontinued Operations		-	-	-	-	-	-
XV. SUBORDINATED LOANS	(II-k)	-	1.100.050	1.100.050	-	1.983.954	1.983.954
XVI. SHAREHOLDERS' EQUITY	(II-l)	2.560.357	4.723	2.565.080	2.277.025	-	2.277.025
16.1 Paid-in Capital		652.290	-	652.290	652.290	-	652.290
16.2 Capital Reserves		254.663	4.723	259.386	274.811	-	274.811
16.2.1 Share Premium		-	-	-	-	-	-
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Marketable Securities Valuation Differences		(22.622)	4.723	(17.899)	(2.317)	-	(2.317)
16.2.4 Property and Equipment Revaluation Differences		-	-	-	-	-	-
16.2.5 Intangible Assets Revaluation Differences		-	-	-	-	-	-
16.2.6 Revaluation Differences of Investment Property		-	-	-	-	-	-
16.2.7 Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures (Business Partners)		-	-	-	-	-	-
16.2.8 Hedging Funds (Effective Portion)		4.592	-	4.592	4.435	-	4.435
16.2.9 Value Increase in Property and Equipment Held for Sale and Related to Discontinued Operations		-	-	-	-	-	-
16.2.10 Other Capital Reserves		272.693	-	272.693	272.693	-	272.693
16.3 Profit Reserves		1.344.667	-	1.344.667	1.706.522	-	1.706.522
16.3.1 Legal Reserves		184.141	-	184.141	183.104	-	183.104
16.3.2 Status Reserves		-	-	-	-	-	-
16.3.3 Extraordinary Reserves		1.191.037	-	1.191.037	1.548.672	-	1.548.672
16.3.4 Other Profit Reserves		(30.511)	-	(30.511)	(25.254)	-	(25.254)
16.4 Profit or Loss		308.737	-	308.737	(356.598)	-	(356.598)
16.4.1 Prior Years' Profit/(Loss)		-	-	-	-	-	-
16.4.2 Current Year Profit/(Loss)		308.737	-	308.737	(356.598)	-	(356.598)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		9.607.195	15.020.728	24.627.923	10.448.349	13.921.067	24.369.416

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL".))

II. OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	Audited Current Period (31.12.2017)			Audited Prior Period (31.12.2016)		
		TL	FC	Total	TL	FC	Total
A. OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)		38.749.790	71.006.021	109.755.811	21.037.034	49.809.290	70.846.324
I. GUARANTEES AND WARRANTIES	(III-a-2,3)	922.438	1.874.869	2.797.307	828.722	1.821.849	2.650.571
1.1 Letters of Guarantee		918.638	671.301	1.589.939	828.632	939.267	1.767.899
1.1.1 Guarantees Subject to State Tender Law		-	-	-	-	-	-
1.1.2 Guarantees Given for Foreign Trade Operations		16.647	2.407	19.054	9.806	1.973	11.779
1.1.3 Other Letters of Guarantee		901.991	668.894	1.570.885	818.826	937.294	1.756.120
1.2 Bank Acceptances		-	155.184	155.184	-	58.547	58.547
1.2.1 Import Letter of Acceptance		-	155.184	155.184	-	58.547	58.547
1.2.2 Other Bank Acceptances		-	-	-	-	-	-
1.3 Letters of Credit		-	698.997	698.997	-	476.016	476.016
1.3.1 Documentary Letters of Credit		-	637.983	637.983	-	410.417	410.417
1.3.2 Other Letters of Credit		-	61.014	61.014	-	65.599	65.599
1.4 Prefinancing Given as Guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of the Republic of Turkey		-	-	-	-	-	-
1.5.2 Other Endorsements		-	-	-	-	-	-
1.6 Securities Issue Purchase Guarantees		-	-	-	-	-	-
1.7 Factoring Guarantees		-	-	-	-	-	-
1.8 Other Guarantees		3.800	349.387	353.187	90	348.019	348.109
1.9 Other Collaterals		-	-	-	-	-	-
II. COMMITMENTS	(III-a-1)	9.271.227	7.341.030	16.612.257	7.089.287	4.634.919	11.724.206
2.1 Irrevocable Commitments		9.271.227	7.341.030	16.612.257	7.089.287	4.634.919	11.724.206
2.1.1 Asset Purchase and Sale Commitments		4.047.515	7.340.693	11.388.208	497.440	4.634.513	5.131.953
2.1.2 Forward Deposit Purchase and Sales Commitments		-	-	-	-	-	-
2.1.3 Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4 Loan Granting Commitments		246.829	-	246.829	481.649	-	481.649
2.1.5 Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6 Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7 Commitments for Cheque Payments		489.830	-	489.830	489.020	-	489.020
2.1.8 Tax and Fund Liabilities from Export Commitments		1.892	-	1.892	4.962	-	4.962
2.1.9 Commitments for Credit Card Limits		3.872.439	-	3.872.439	4.797.889	-	4.797.889
2.1.10 Commitments for Credit Cards and Banking Services Promotions		14.780	-	14.780	17.609	-	17.609
2.1.11 Receivables From Short Sale Commitments of Marketable Securities		-	-	-	26.939	49	26.988
2.1.12 Payables for Short Sale Commitments of Marketable Securities		-	-	-	26.939	49	26.988
2.1.13 Other Irrevocable Commitments		597.942	337	598.279	746.840	308	747.148
2.2 Revocable Commitments		-	-	-	-	-	-
2.2.1 Revocable Loan Granting Commitments		-	-	-	-	-	-
2.2.2 Other Revocable Commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(III-b)	28.556.125	61.790.122	90.346.247	13.119.025	43.352.522	56.471.547
3.1 Hedging Derivative Financial Instruments		-	-	-	242.340	317.363	559.703
3.1.1 Transactions for Fair Value Hedge		-	-	-	-	-	-
3.1.2 Transactions for Cash Flow Hedge		-	-	-	242.340	317.363	559.703
3.1.3 Transactions for Foreign Net Investment Hedge		-	-	-	-	-	-
3.2 Trading Transactions		28.556.125	61.790.122	90.346.247	12.876.685	43.035.159	55.911.844
3.2.1 Forward Foreign Currency Buy/Sell Transactions		4.268.195	5.456.776	9.724.971	2.600.298	4.018.683	6.618.981
3.2.1.1 Forward Foreign Currency Transactions-Buy		2.886.489	2.019.974	4.906.463	1.635.326	1.643.719	3.279.045
3.2.1.2 Forward Foreign Currency Transactions-Sell		1.381.706	3.436.802	4.818.508	964.972	2.374.964	3.339.936
3.2.2 Swap Transactions Related to Foreign Currency and Interest Rates		20.400.897	49.792.847	70.193.744	6.774.122	33.254.460	40.028.582
3.2.2.1 Foreign Currency Swap-Buy		5.217.878	20.598.966	25.816.754	2.918.562	7.517.014	10.435.576
3.2.2.2 Foreign Currency Swap-Sell		15.183.109	10.802.517	25.985.626	3.855.560	6.285.948	10.141.508
3.2.2.3 Interest Rate Swap-Buy		-	9.195.682	9.195.682	-	9.725.749	9.725.749
3.2.2.4 Interest Rate Swap-Sell		-	9.195.682	9.195.682	-	9.725.749	9.725.749
3.2.3 Foreign Currency, Interest rate and Securities Options		3.887.033	6.529.043	10.416.076	3.502.265	5.727.374	9.229.639
3.2.3.1 Foreign Currency Options-Buy		1.941.852	3.266.220	5.208.072	1.749.825	2.865.145	4.614.970
3.2.3.2 Foreign Currency Options-Sell		1.945.181	3.262.823	5.208.004	1.752.440	2.862.229	4.614.669
3.2.3.3 Interest Rate Options-Buy		-	-	-	-	-	-
3.2.3.4 Interest Rate Options-Sell		-	-	-	-	-	-
3.2.3.5 Securities Options-Buy		-	-	-	-	-	-
3.2.3.6 Securities Options-Sell		-	-	-	-	-	-
3.2.4 Foreign Currency Futures		-	-	-	-	-	-
3.2.4.1 Foreign Currency Futures-Buy		-	-	-	-	-	-
3.2.4.2 Foreign Currency Futures-Sell		-	-	-	-	-	-
3.2.5 Interest Rate Futures		-	-	-	-	-	-
3.2.5.1 Interest Rate Futures-Buy		-	-	-	-	-	-
3.2.5.2 Interest Rate Futures-Sell		-	-	-	-	-	-
3.2.6 Other		-	11.456	11.456	-	34.642	34.642
B. CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		24.463.314	55.809.728	80.273.042	27.083.657	63.538.727	90.622.384
IV. ITEMS HELD IN CUSTODY		10.653.702	1.650.912	12.304.614	7.734.946	1.637.076	9.372.022
4.1 Customer Fund and Portfolio Balances		1.375.193	-	1.375.193	1.105.508	-	1.105.508
4.2 Investment Securities Held in Custody		6.809.800	1.490.481	8.300.281	4.202.009	1.472.204	5.674.213
4.3 Checks Received for Collection		755.122	50.506	805.628	1.053.137	66.521	1.119.658
4.4 Commercial Notes Received for Collection		159.074	-	159.074	134.247	-	134.247
4.5 Other Assets Received for Collection		-	8.582	8.582	-	9.613	9.613
4.6 Assets Received for Public Offering		-	-	-	-	-	-
4.7 Other Items Under Custody		1.554.513	101.343	1.655.856	1.240.045	88.738	1.328.783
4.8 Custodians		-	-	-	-	-	-
V. PLEDGES RECEIVED		8.530.950	9.604.114	18.135.064	12.294.107	13.802.990	26.097.097
5.1 Marketable Securities		32.689	-	32.689	665.475	1.328	666.803
5.2 Guarantee Notes		157.629	400.689	558.318	220.950	644.988	865.938
5.3 Commodity		240	496	736	240	7.743	7.983
5.4 Warranty		-	-	-	-	-	-
5.5 Immovable Properties		5.069.460	3.305.779	8.375.239	6.060.167	3.197.090	9.257.257
5.6 Other Pledged Items		3.270.932	5.897.150	9.168.082	5.347.275	9.951.841	15.299.116
5.7 Pledged Items-Depository		-	-	-	-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		5.278.662	44.554.702	49.833.364	7.054.604	48.098.661	55.153.265
TOTAL OFF BALANCE SHEET COMMITMENTS (A+B)		63.213.104	126.815.749	190.028.853	48.120.691	113.348.017	161.468.708

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

III. STATEMENT OF INCOME			
INCOME AND EXPENSE ITEMS	Note (Section Five IV)	Audited Current Period (01.01.2017 – 31.12.2017)	Audited Prior Period (01.01.2016 – 31.12.2016)
I. INTEREST INCOME	(IV-a)	2.254.432	2.024.612
1.1 Interest on Loans	(IV-a-1)	1.586.768	1.805.018
1.2 Interest Received from Reserve Requirements		24.410	13.734
1.3 Interest Received from Banks	(IV-a-2)	365.940	12.220
1.4 Interest Received from Money Market Transactions		117.381	25.912
1.5 Interest Received from Marketable Securities Portfolio	(IV-a-3)	157.200	163.291
1.5.1 Trading Financial Assets		15.740	57.200
1.5.2 Financial Assets at Fair Value through Profit or (Loss)		-	-
1.5.3 Available-for-sale Financial Assets		141.460	106.091
1.5.4 Held to Maturity Investments		-	-
1.6 Financial Lease Income		-	-
1.7 Other Interest Income		2.733	4.437
II. INTEREST EXPENSE (-)	(IV-b)	882.664	1.071.708
2.1 Interest on Deposits (-)	(IV-b-4)	623.834	759.527
2.2 Interest on Funds Borrowed (-)	(IV-b-1)	228.313	242.381
2.3 Interest Expense on Money Market Transactions (-)		18.467	51.569
2.4 Interest on Securities Issued (-)	(IV-b-3)	-	-
2.5 Other Interest Expenses (-)		12.050	18.231
III. NET INTEREST INCOME (I + II)		1.371.768	952.904
IV. NET FEES AND COMMISSIONS INCOME		332.992	374.583
4.1 Fees and Commissions Received		374.497	417.319
4.1.1 Non-Cash Loans		21.053	20.944
4.1.2 Other	(IV-1)	353.444	396.375
4.2 Fees and Commissions Paid (-)		41.505	42.736
4.2.1 Non-Cash Loans (-)		925	564
4.2.2 Other (-)		40.580	42.172
V. DIVIDEND INCOME	(IV-c)	42.539	19.869
VI. TRADING INCOME/(LOSS) (Net)	(IV-d)	(501.870)	64.204
6.1 Trading Gains/(Losses) on Securities		17.764	19.930
6.2 Derivative Financial Transactions Gains/(Losses)		225.513	529.842
6.3 Foreign Exchange Gains/(Losses)		(745.147)	(485.568)
VII. OTHER OPERATING INCOME	(IV-e)	271.747	224.412
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)		1.517.176	1.635.972
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(IV-f)	344.390	790.111
X. OTHER OPERATING EXPENSES (-)	(IV-g)	1.004.951	1.198.228
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		167.835	(352.367)
XII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-	-
XIII. INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-	-
XIV. INCOME/(LOSS) ON NET MONETARY POSITION		-	-
XV. INCOME/EXPENSE BEFORE TAXES FROM CONTINUING OPERATIONS (XI+XII+XIII+XIV)	(IV-h)	167.835	(352.367)
XVI. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(IV-i)	140.902	(4.231)
16.1 Current Tax Provision		(5.076)	(2.349)
16.2 Deferred Tax Provision		145.978	(1.882)
XVII. NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)	(IV-j)	308.737	(356.598)
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1 Income from Non-Current Assets Held for Sale		-	-
18.2 Profit from Sales of Associates, Subsidiaries and Joint Ventures (business partners)		-	-
18.3 Other Income From Discontinued Operations		-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1 Expenses for Non-Current Assets Held for Sale		-	-
19.2 Loss from Sales of Associates, Subsidiaries and Joint Ventures (business partners)		-	-
19.3 Other Expenses From Discontinued Operations		-	-
XX. PROFIT /LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-	-
XXI. PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)		-	-
21.1 Current Tax Provision		-	-
21.2 Deferred Tax Provision		-	-
XXII. NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-	-
XXIII. NET PROFIT/LOSSES (XVII+XXII)	(IV-k)	308.737	(356.598)
Earnings/Loss per Share(The amounts are expressed in full TL)		0,004733	(0,005467)

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS RECOGNISED UNDER SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

IV. STATEMENTS OF PROFIT AND LOSS ITEMS RECOGNISED UNDER SHAREHOLDERS' EQUITY		
PROFIT AND LOSS ITEMS RECOGNISED UNDER SHAREHOLDERS' EQUITY	Audited Current Period (31.12.2017)	Audited Prior Period (31.12.2016)
I. ADDITIONS TO THE MARKETABLE VALUATION DIFFERENCES FROM THE AVAILABLE FOR SALE FINANCIAL ASSETS	(19.478)	(23.069)
II. PROPERTY AND EQUIPMENT REVALUATION DIFFERENCES	-	-
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	-	-
V. PROFIT OR LOSS ON CASH FLOW HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Differences)	196	(3.755)
VI. PROFIT/LOSS FROM FOREIGN INVESTMENT HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)	-	-
VII. THE EFFECT OF CHANGES IN ACCOUNTING POLICY AND ADJUSTMENT OF ERRORS	-	-
VIII. OTHER INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY ACCORDING TO TAS	(6.571)	(5.655)
IX. DEFERRED TAX RELATED TO VALUATION DIFFERENCES	5.171	6.496
X. NET PROFIT OR LOSS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	(20.682)	(25.983)
XI. CURRENT YEAR PROFIT/LOSS	308.737	(356.598)
11.1 Net change in Fair Value of Marketable Securities (Transfer to Profit-Loss)	(2.234)	25.084
11.2 Reclassification of Cash Flow Hedge Transactions and Presentation of the Related Under Income Statement	2.906	(454)
11.3 Reclassification of Foreign Net Investment Hedge Transactions and Presentation of the Related Part Under Income Statement	-	-
11.4 Other	308.065	(381.228)
XII. TOTAL PROFIT/LOSS RELATED TO THE CURRENT PERIOD (X±XI)	288.055	(382.581)

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																	
Audited	Note	Paid-in	Adjustment to	Share	Share Cancell.	Legal	Statutory	Extraordinary	Other	Current	Prior	Marketable	Rev. Diff. in	Bonus	Hedging	Rev. Diff. in	Total Equity
31 December 2016	(Section Five)	Capital	Paid-in Capital	Premium	Profits	Reserves	Reserves	Reserves	Reserves	Period Net Profit/(Loss)	Period Net Profit/(Loss)	Sec. Valuation Differences	Tangible and Intang. Assets	Shares from Investments	Funds	for Sale/Disc. Operat.	
I. Balances at the Beginning of the Period – 31 December 2015		652.290	-	-	-	181.738	-	1.881.494	251.963	(331.456)	-	16.138	-	-	7.439	-	2.659.606
II. Corrections According to TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Correction of Errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effects of the Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted Balance (I+II)		652.290	-	-	-	181.738	-	1.881.494	251.963	(331.456)	-	16.138	-	-	7.439	-	2.659.606
Changes in the Period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Increase/Decrease due to the Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Marketable Securities Valuation Differences	(V-a)	-	-	-	-	-	-	-	-	-	-	(18.455)	-	-	-	-	(18.455)
VI. Hedging Transactions Funds (Effective Parts)		-	-	-	-	-	-	-	-	-	-	-	-	-	(3.004)	-	(3.004)
6.1 Cash Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(3.004)	-	(3.004)
6.2 Foreign Investment Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Property and Equipment Revaluation Differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Intangible Fixed Assets Revaluation Differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Foreign Exchange Differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Changes due to the Disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Changes due to the Reclassification of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Effect of the Changes in Investment in Associates' Equity to the Bank's Equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1 Cash Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2 Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Share Premium	(V-d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Paid in-Capital Adjustment Difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Other		-	-	-	-	-	-	-	(4.524)	-	-	-	-	-	-	-	(4.524)
XIX. Current Year Income or Loss		-	-	-	-	-	-	-	-	(356.598)	-	-	-	-	-	-	(356.598)
XX. Profit Distribution		-	-	-	-	1.366	-	(332.822)	-	331.456	-	-	-	-	-	-	-
20.1 Dividends Paid		-	-	-	-	1.366	-	(332.822)	-	331.456	-	-	-	-	-	-	-
20.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the End of the period -31 December.2016 (III+IV+V+.....+XIX+XX)		652.290	-	-	-	183.104	-	1.548.672	247.439	(356.598)	-	(2.317)	-	-	4.435	-	2.277.025

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																	
Audited	Note	Paid-in	Adjustment to	Share	Share Cancell.	Legal	Statutory	Extraordinary	Other	Current	Prior	Marketable	Rev. Diff. in	Bonus	Hedging	Rev. Diff. in	Total Equity
31 December 2017	(Section	Capital	Paid-in Capital	Premium	Profits	Reserves	Reserves	Reserves	Reserves	Period Net	Period Net	Sec. Valuation	Tangible and	Shares from	Funds	Tangible Held	
	Five)									Profit/(Loss)	Profit/(Loss)	Differences	Intang. Assets	Investments		for Sale/Disc.	
																Operat.	
I. Balances at the End of the Prior Period		652.290	-	-	-	183.104	-	1.548.672	247.439	(356.598)	-	(2.317)	-	-	4.435	-	2.277.025
Changes in the Period																	
II. Increase/Decrease due to the Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable Securities Valuation Differences	(V-a)	-	-	-	-	-	-	-	-	-	-	(15.582)	-	-	-	-	(15.582)
IV. Hedging Transactions Funds (Effective Parts)		-	-	-	-	-	-	-	-	-	-	-	-	-	157	-	157
4.1 Cash Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	157	-	157
4.2 Foreign Investment Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Valuation Differences due to Revaluation of Property and Equipment		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Valuation Differences due to Revaluation of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign Exchange Differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Changes due to the Disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes due to the Reclassification of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of the Changes in Investment in Associates' Equity to the Bank's Equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Share Premium	(V-d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Paid in-Capital Adjustment Difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-	-	(5.257)	-	-	-	-	-	-	-	(5.257)
XVII. Current Year Income or Loss		-	-	-	-	-	-	-	-	308.737	-	-	-	-	-	-	308.737
XVIII. Profit Distribution		-	-	-	-	1.037	-	(357.635)	-	356.598	-	-	-	-	-	-	-
18.1 Dividends Paid		-	-	-	-	1.037	-	(357.635)	-	356.598	-	-	-	-	-	-	-
18.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at the End of the period -31.12.2017 (I+II+III+IV+V.....+XVIII)		652.290	-	-	-	184.141	-	1.191.037	242.182	308.737	-	(17.899)	-	-	4.592	-	2.565.080

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VI. STATEMENT OF CASH FLOWS	Note (Section Five VI)	Audited Current Period (31.12.2017)	Audited Prior Period (31.12.2016)
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating Profit Before Changes in Operating Assets and Liabilities	(VI-a)	1.172.950	591.692
1.1.1 Interest Received	(VI-a)	2.360.802	2.049.288
1.1.2 Interest Paid	(VI-a)	(838.912)	(1.069.412)
1.1.3 Dividend Received		42.539	19.869
1.1.4 Fees and Commissions Received		378.578	421.017
1.1.5 Other Income		205.650	224.412
1.1.6 Collections From Previously Written-Off Loans and Other Receivables		277.225	272.736
1.1.7 Payments to Personnel and Service Suppliers	(VI-a)	(382.599)	(561.904)
1.1.8 Taxes Paid		(17.682)	19
1.1.9 Other		(852.651)	(764.333)
1.2 Changes in Operating Assets and Liabilities		(1.946.973)	690.893
1.2.1 Net (Increase)/Decrease in Trading Securities		(185.463)	913.595
1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-	-
1.2.3 Net (Increase)/Decrease in Banks		-	(5)
1.2.4 Net (Increase)/Decrease in Loans		(1.598.841)	5.706.584
1.2.5 Net (Increase)/Decrease in Other Assets		(112.129)	1.580.770
1.2.6 Net Increase/(Decrease) in Bank Deposits		1.339.986	89.958
1.2.7 Net Increase/(Decrease) in Other Deposits		(125.762)	(3.984.577)
1.2.8 Net Increase/(Decrease) in Funds Borrowed		(658.698)	(2.692.179)
1.2.9 Net Increase/(Decrease) in Matured Payables		-	-
1.2.10 Net Increase/(Decrease) in Other Liabilities	(VI-a)	(606.066)	(923.253)
I. Net Cash Provided From Banking Operations		(774.023)	1.282.585
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II. Net Cash Provided From Investing Activities		(72.621)	(612.936)
2.1 Cash Paid for Acquisition of Investments, Associates and Subsidiaries (Business Partnerships)		-	-
2.2 Cash Obtained From Disposal of Investments, Associates And Subsidiaries (Business Partnerships)		-	-
2.3 Purchases of Property And Equipment		(34.931)	(32.058)
2.4 Disposals of Property And Equipment		11.090	11.352
2.5 Cash Paid for Purchase of Investments Available-for-Sale		(1.591.084)	(2.734.394)
2.6 Cash Obtained From Sale of Investments Available-for -Sale		1.498.283	2.152.500
2.7 Cash Paid for Purchase of Investment Securities		-	-
2.8 Cash Obtained From Sale of Investment Securities		-	-
2.9 Other		44.021	(10.336)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net Cash Provided From Financing Activities		-	-
3.1 Cash Obtained From Funds Borrowed and Securities Issued		-	-
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued		-	-
3.3 Issued Capital Instruments		-	-
3.4 Dividends Paid		-	-
3.5 Payments for Finance Leases		-	-
3.6 Other		-	-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(VI-a)	(2.711)	2.017
V. Net (Decrease)/Increase in Cash and Cash Equivalents (I+II+III+IV)		(849.355)	671.666
VI. Cash and Cash Equivalents at Beginning of the Period	(VI-d)	5.611.066	4.939.400
VII. Cash and Cash Equivalents at End of the Period	(VI-d)	4.761.711	5.611.066

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these financial statements.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE PERIODS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

VII.STATEMENT OF PROFIT DISTRIBUTION	Audited Current Period (31.12.2017) (*)	Audited Prior Period (31.12.2016) (**)
I. DISTRIBUTION OF CURRENT YEAR INCOME		
1.1. Current Year Income	167.835	(352.367)
1.2. Taxes And Duties Payable (-)	(140.902)	4.231
1.2.1 Corporate Tax (Income tax)	5.076	2.349
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	(145.978)	1.882
A. NET INCOME FOR THE YEAR (1.1-1.2)	308.737	(356.598)
1.3. Prior Year Losses (-)	-	-
1.4. First Legal Reserves (-)	-	-
1.5. Other Statutory Reserves (-)	145.978	-
B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	162.759	-
1.6. First Dividend To Shareholders (-)	-	-
1.6.1 To Owners Of Ordinary Shares	-	-
1.6.2 To Owners Of Privileged Shares	-	-
1.6.3 To Owners Of Preferred Shares	-	-
1.6.4 To Profit Sharing Bonds	-	-
1.6.5 To Holders Of Profit And Loss Sharing Certificates	-	-
1.7. Dividends To Personnel (-)	-	-
1.8. Dividends To Board Of Directors (-)	-	-
1.9. Second Dividend To Shareholders (-)	-	-
1.9.1 To Owners Of Ordinary Shares	-	-
1.9.2 To Owners Of Privileged Shares	-	-
1.9.3 To Owners Of Preferred Shares	-	-
1.9.4 To Profit Sharing Bonds	-	-
1.9.5 To Holders Of Profit And Loss Sharing Certificates	-	-
1.10. Second Legal Reserves (-)	-	-
1.11. Statutory Reserves (-)	-	-
1.12. Extraordinary Reserves	-	-
1.13. Other Reserves	-	-
1.14. Special Funds	-	-
II. DISTRIBUTION OF RESERVES	-	-
2.1. Appropriated Reserves	-	-
2.2. Second Legal Reserves (-)	-	-
2.3. Dividends To Shareholders (-)	-	-
2.3.1 To Owners Of Ordinary Shares	-	-
2.3.2 To Owners Of Privileged Shares	-	-
2.3.3 To Owners Of Preferred Shares	-	-
2.3.4 To Profit Sharing Bonds	-	-
2.3.5 To Holders Of Profit And Loss Sharing Certificates	-	-
2.4. Dividends To Personnel (-)	-	-
2.5. Dividends To Board Of Directors (-)	-	-
III. EARNINGS PER SHARE (***)		
3.1. To Owners Of Ordinary Shares	0,004733	(0,005467)
3.2. To Owners Of Ordinary Shares (%)	-	-
3.3. To Owners Of Privileged Shares	-	-
3.4. To Owners Of Privileged Shares (%)	-	-
IV. DIVIDEND PER SHARE		
4.1. To Owners Of Ordinary Shares	-	-
4.2. To Owners Of Ordinary Shares (%)	-	-
4.3. To Owners Of Privileged Shares	-	-
4.4. To Owners Of Privileged Shares (%)	-	-

(*) As of reporting date, yearly ordinary meeting of the General Assembly has not been held yet to decide on the profit distribution for the year 2017.

(**) The profit distribution table belongs to prior period becomes definite with the decision of Ordinary General Assembly after the publishing of 31 December 2016 financial statement dated to 29 March 2017 and rearranged in this direction.

(***) 1.000 nominal is expressed in full TL.

The accompanying explanations and notes set out on pages 14 to 117 form an integral part of these consolidated financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED
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HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2017**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

SECTION THREE

EXPLANATIONS ON ACCOUNTING POLICIES

I. EXPLANATIONS ON BASIS OF PRESENTATION

a. The preparation of the financial statements and related notes and explanations in accordance with the Turkish Accounting Standards and Regulation on the Principles and Procedures Regarding Banks’ Accounting Application and Keeping Documents:

The unconsolidated financial statements are prepared within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and other regulations related to reporting principles on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by Banking Regulation and Supervision Authority (together referred as BRSA Accounting and Reporting Legislation) and in case where a specific regulation is not made by BRSA, Turkish Financial Reporting Standards (“TFRS”) and related appendices and interpretations (referred as “Turkish Accounting Standards” or “TAS”) put into effect by Public Oversight Accounting and Auditing Standards Authority (“POA”) (all referred as “Reporting Standards”). The format and content of the publicly announced unconsolidated financial statements and notes to these statements have been prepared in accordance with the “Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements”, published in Official Gazette no. 28337, dated 28 June 2012, and amendments to this Communiqué. The Bank maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation.

The unconsolidated financial statements have been prepared in TL, under the historical cost convention as modified in accordance with inflation adjustments until 31 December 2004, except for the financial assets and liabilities which are carried at fair value.

The preparation of the unconsolidated financial statements in conformity with TAS requires the Bank Management to use of certain make assumptions and estimates on the assets and liabilities of the balance sheet and contingent issues as of the balance sheet date. These estimates are reviewed regularly and, when necessary, corrections are made and the effects of these corrections are reflected to the income statement. The estimations and projections used are explained in corresponding disclosures.

According to the decision of BRSA numbered 7649 and dated 21 December 2017, transition to TFRS 9 in accordance with Article 1 of the Communiqué on “Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be Set Aside” has been postponed until 1 January 2019 for HSBC Bank A.Ş. and provisions will be calculated as part of 10th, 11th, 13th and 15th articles of the regulation.

b. Accounting policies and valuation principles applied in the presentation of financial statements:

The accounting policies and valuation principles applied in the preparation of financial statements are determined and applied in accordance with the reporting standards. These accounting policies and valuation principles are explained in explanations on accounting policies section.

c. Explanation for convenience translation into English:

The differences between accounting principles, as described in these preceding paragraphs and accounting principles generally accepted in countries in which the complying unconsolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in these unconsolidated financial statements. Accordingly, these unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED
FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE NOTE 3.I**

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2017**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

**II. EXPLANATIONS ON STRATEGY OF USING FINANCIAL INSTRUMENTS AND
EXPLANATIONS ON FOREIGN CURRENCY TRANSACTIONS**

The main sources of the Bank are customer deposits and borrowings from abroad. The Bank’s liquidity structure covers the financing of all liabilities at due date. This liquidity structure of the Bank has been established by diversifying fund resources and keeping sufficient cash and cash equivalents.

The Bank applies sophisticated methods of the group in daily market risk managing and control activities. In measuring the market risk and determining limits, “Value at Risk” (“VaR”) approach is being applied. For the portfolios which are subject to market risk; interest rate and currency risks are monitored; with regard to this, limits such as daily and monthly maximum loss limits regarding the exchange rate and share price risk, Value at Risk limits, maturity limits and quantity limits are being applied. The limit usages are being monitored through various checkpoints and reported to the top management. Risk monitoring and control activities are being performed by independent units. For the portfolios which are subject to the interest risks, sensitivity of the changes in interest rates are being analyzed by “Present Value Basis Points” method (“PVBP”) and relevant limits are being determined.

Various stress scenarios, liquidity, gap, and volatility analysis have been performed regarding the control, monitor and management of the market risks. The purpose of these analyses is to be prepared for the possible risks and to make quick decisions regarding the targeted profitability.

Analyses that are conducted related to determined risks are being tracked by committees such as the Asset-Liability Committee and the Market Risk Committee and value adding decisions are made. The foreign exchange gains and losses from the foreign exchange transactions are being recorded at the date of transactions conducted. Foreign currency denominated monetary assets and liabilities are translated with the exchange rates prevailing. Gains and losses arising from such valuations are recognised in the income statement under the account of “Foreign exchange gains or losses”, except for foreign currency non-performing loans and other foreign currency denominated non-monetary assets and liabilities.

III. EXPLANATIONS ON INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

The Bank has no investments in associates as of 31 December 2017. Investments in subsidiaries are accounted in accordance with the “Turkish Accounting Standard on Financial Instruments: Recognition and Measurement” (“TAS 39”) in the unconsolidated financial statements. Investments in subsidiaries that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less provision for impairment. Non-financial subsidiary of the Bank is HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş. which was established on 10 December 1999 to provide VIP services either for its clients or the clients of the legal entities, and in this respect, to provide transfer, hospitality, pass port, catering, housing, parking, private waiting room and transportation services in railroad, land, sea, airport passenger lounges either to its clients or all real or legal persons.

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IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

In order to reduce the foreign exchange position risk the Bank conducts currency forward purchase and sale transaction agreements, currency swap purchase and sale transaction agreements and option purchase and sale agreements. In order to reduce the interest risk, the Bank conducts interest futures and forward interest rate agreements. According to TAS 39 the transactions which are classified as hedging or trading and recognised at fair value. The fair value of derivative instruments are recorded on the market value or discounted cash flow value is taken in the account. If the fair value of derivative financial instruments is positive, it is disclosed under the main account “Financial assets at fair value through profit or loss” in “Trading derivative financial assets” or “Hedging derivative financial assets” and if the fair value difference is negative, it is disclosed in “Trading derivative financial liabilities” or “Hedging derivative financial liabilities”. The fair value changes of the trading derivatives are recognized under “Derivative financial transactions gains/(losses)” at income statement. Until 30 June 2017, the Bank applied cash flow hedge accounting by cross currency swap transactions in order to hedge itself from the changes in the interest rates of the fixed-rate time deposits which have maturity of 1-3 month. The bank has performed strength tests for risk protection accounting in balance sheet date. While the effective portions are accounted under hedging reserves in shareholders’ equity as described in TAS 39, the ineffective portion is recognized at income statement.

If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortized cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the profit and loss accounts. As of 31 December 2017 hedge accounting is not applied.

V. EXPLANATIONS ON INTEREST INCOME AND EXPENSES

Interest income and expenses are recognised on an accrual basis using the effective interest rate method. In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed. The interest income related to these loans are recorded as interest income only when collected.

VI. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSES

All fees and commission income/expenses are recognised on an accrual basis in accordance with the matching principle or “Effective Rate Method (Internal Rate of Return Method)”, except for certain commission income and fees for various banking services which are recorded as income at the time of collection. Contract based fees or fees received in return for services such as the purchase and sale of assets on behalf of a third party or legal person are recognised as income at the time of collection.

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VII. EXPLANATIONS ON FINANCIAL ASSETS

The Bank categorizes its financial assets as “Fair value through profit/loss”, “Available-for-sale”, and “Loans and receivables”. The appropriate classification of financial assets of the Bank is determined at trade dates.

a. Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss consist of trading financial assets and financial assets at fair value through profit or loss. They are initially recognised at cost and subsequently re-measured at their fair value. While determining the fair value, the average price comprising in the active market is used and the gains and losses generated is recognised in the income statement.

Derivative financial instruments are treated as trading financial assets unless they are designated as hedge instruments. The principles regarding the accounting of derivative financial instruments are explained in detail in Note IV of Section Three.

b. Financial assets available-for-sale:

Available-for-sale financial assets are defined as financial assets other than the ones classified as “Loans and receivables”, “Held-to-maturity assets” or “Financial asset at fair value through profit or loss”. Financial assets available for sale are measured at fair value. Unrealized gains and losses arising from the changes in the fair value of financial assets available for sale with fixed maturity and certain cash flow are recognised at “Marketable Securities Valuation Differences” under the shareholders’ equity. The interest income which is calculated with the effective interest rate method is recognised in the income statement. When these securities are disposed of, the related fair value differences accumulated in the shareholders’ equity are transferred to the income statement. Available-for-sale equity securities that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value and mentioned valuation differences are recognised at “Marketable Securities Valuation Differences”. Available-for-sale equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

c. Loans and receivables:

Financial assets that are originated by the Bank by providing money, services or goods to borrowers are categorized as loans and receivables. Loans and receivables originated by the Bank are recognised at the amortised cost value calculated using the effective interest rate method.

The Bank makes risk assessment for the loans and receivables on the consumer and portfolio basis and provides specific provisions for the non-performing loans not less than the determined minimum rates according to the (“Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be booked”) published in the Official Gazette dated 1 November 2006 and numbered 26333. In addition to the non-performing loans, the Bank provides general loan loss provisions for the loans and receivables which are defined in the same communiqué. The interests and accruals of the non-performing loans are derecognized from the financial statement and provision expense is recognized in the income statement. Releases of current period provisions are made by the reversal of the amount from the “Provision for Impairment of Loans and Other Receivables” account.

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VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

d. Investment securities held-to-maturity:

Investment securities held-to-maturity are financial assets that are not classified under loans and receivables and have fixed maturities and fixed or pre-determined payments where management has the intent and ability to hold the financial assets until maturity. Investment securities held-to-maturity are initially recognized at cost, and subsequently carried at amortized cost using the effective interest rate method; interest earned whilst holding investment securities held-to-maturity is reported as interest income and impairment for these financial assets recognized in the income statement. As of 31 December 2017 and 31 December 2016, the Bank has no investment securities held-to-maturity.

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

In each balance sheet date, the Bank assesses if there is an objective evidence of the impairment of financial assets or financial asset groups. If such an indicator exists, the Bank will perform the calculations. Impairment loss incurs if, and only if, there is objective evidence that the expected future cash flows of financial assets or group of financial asset are adversely affected by an event “loss event” incurred subsequent to recognition. In case the loans could not be collected; loans and other receivables are classified in order to provide specific and general provisions in accordance with the Communiqué on “Regulation on the principles and Procedures Related to the Determination of the Loans and Other Receivables for which Provisions shall be booked by Banks and to the Provisions to be Booked” published in the Official Gazette No. 26333 dated 1 November 2006 and these provisions are changed against the income for the year.

IX. EXPLANATIONS ON OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognised amounts and there is an intention to collect/pay related financial assets and liabilities on a net basis.

**X. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS AND SECURITIES’
LENDING TRANSACTIONS**

Securities subject to repurchase agreements are classified as “Financial assets at fair value difference through profit or loss” and “Available-for-sale securities” in the balance sheet according to the investment purposes and measured according to the portfolio of the Bank to which they belong. The interest expense rediscount for funds obtained under repurchase agreement which is calculated with the effective interest rate method are recognised in the income statement. As of 31 December 2017 and 31 December 2016, funds given against securities purchased under agreements to resell (“Reverse repurchase agreements”) are accounted under “Receivables from money market - Receivables from reverse repurchase agreements” in the balance sheet. The difference between the purchase and resell price determined by these repurchase agreements is accrued evenly over the life of repurchase agreements using the effective interest rate method. The Bank has no securities lending transactions. “Transactions Related to Foreign Currency Deposits in Turkish Lira Deposits” published by the Central Bank of the Republic of Turkey as of 17 January 2017 are recorded in the balance sheet under cash assets and deposit accounts.

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XI. EXPLANATIONS ON PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS AND EXPLANATIONS ON LIABILITIES RELATED WITH THESE ASSETS

HSBC Bank A.Ş. signed the share transfer agreement regarding the decision of Board of Directors dated on 23 March 2017 on selling all banking activities of Cyprus Branches of HSBC Bank A.Ş. which were built and were operating under Turkish Republic of Northern Cyprus (“TRNC”) law. The initiated legal process has been completed as of 3 December 2017 and 100% shares of the Cyprus Branches of HSBC Bank A.Ş. has been sold to Albank. The loss incurred as result of the sale is shown under “Other Operating Expenses”.

As of 31 December 2017 and 31 December 2016, the Bank has no discontinued operations. Property and equipment held-for-sale consist of tangible assets that were acquired due to non-performing receivables, and are accounted in the financial statements in accordance with the “Communiqué Regarding the Principles and Procedures for the Disposals of Immovable and Commodities Acquired due to Receivables and for Trading of Precious Metal” published in the Official Gazette dated 1 November 2006, No. 26333 and classified as assets held for sale.

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank’s intangible assets are composed of software, goodwill and establishment expenditures. Intangible assets are measured in accordance with “Intangible Assets Standard” (“TAS 38”) at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical cost after the deduction of accumulated depreciation and the provision for value decreases. The depreciable amount of an intangible asset is allocated on a systematic basis over its useful life. The costs of the intangible assets purchased before 31 December 2004, end of the high inflation period is accepted as 31 December 2004, are subject to inflation indexation until 31 December 2004. Intangible assets purchased after 31 December 2004 are recognised with their acquisition cost in the financial statements.

There is no net book value of goodwill as of 31 December 2017 (31 December 2016: None).

XIII. EXPLANATIONS ON PROPERTY AND EQUIPMENT

All property and equipment are measured in accordance with “Property, Plant and Equipment Standard” (“TAS 16”) at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment is carried at cost less accumulated depreciation and provision for value impairment. The costs of the property and equipment purchased before 31 December 2004 or subject to inflation indexation until 31 December 2004. Property and equipment purchased after 31 December 2004 are recognised with their purchase cost in the financial statements. Property and equipment are amortised by using the straight line method based on their useful lives, such as buildings depreciated at rate 2%, transportation vehicles at rates 15% - 20%, furniture at rate 20%, and other tangible assets at rates ranging from 2% to 33%. The depreciation charge for items remaining in the property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item will remain in property and equipment. Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its net sales revenue. Repair and maintenance expenses in order to increase the useful life of the property and equipment are capitalized, other repair and maintenance costs are recognised as expenses. There are no mortgages, pledges or similar precautionary measures on tangible fixed assets.

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XIV. EXPLANATIONS ON LEASING TRANSACTIONS

Assets acquired under finance lease agreements are capitalized in accordance with “Leases Standard” (“TAS 17”) at the inception of the lease at the “Lower of the fair value of the leased asset or the present value of the lease instalments to be paid for the leased asset”. Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of the asset. If there is any diminution in value of the leased asset, a “Provision for value decrease” is recognised. Liabilities arising from the leasing transactions are included in “Financial lease payables” in the balance sheet. Interest and foreign exchange expenses regarding lease transactions are presented the income statement. The Bank does not provide finance lease services as a “Lessor”. Transactions regarding operational lease agreements are accounted on an accrual basis in accordance with the terms of the related contracts.

XV. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

Provisions and contingent liabilities are accounted in accordance with, “Provisions, Contingent Liabilities and Contingent Assets Standard” (“TAS 37”). Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and a reliable estimate of the amount of the obligation can be made. When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a “contingent” liability exists and it is disclosed in the related notes to the financial statements.

XVI. EXPLANATIONS ON CONTINGENT ASSETS

The contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. Contingent assets are not recognised in financial statements since this may result in recognition of income that may never be realized. If an inflow of economic benefits to the Bank has become probable, then the contingent asset is disclosed in the footnotes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

XVII. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

Obligations related to employment termination and vacation rights are accounted for in accordance with “Employee Rights Standard” (“TAS 19”) and are classified under “Reserve for Employee Rights” account in the balance sheet. Under the Turkish Labour Law, the Bank is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The Bank provides provision for retirement and termination liabilities by estimating the net present value of future payments of the Bank arising from the retirement of employees and reflects this provision amount in the financial statements. For employee termination benefit provision calculation, future liability amounts are calculated and yearly discount rate is 2,78% (31 December 2016: 3,93%).

As of 31 December 2017, actuarial loss amounted to TL 30.511 (31 December 2016: TL 25.254 loss) is recognized under other income reserves in the financial statements.

All actuarial gains and losses are recognized under equity in accordance with revised TAS 19.

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XVIII. EXPLANATIONS ON TAXATION

a. Current Tax:

According to the article no. 32 of “Corporate Tax Law” No. 5520 was published in the Official Gazette, No. 26205 dated 21 June 2006, the corporate tax rate is 20%. Corporate tax is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless there is a profit distribution.

Dividends paid to non-resident corporations, which have a place of business in Turkey or are resident corporations, are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related “Double Tax Treaty Agreements” are taken into account. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

The prepaid taxes are calculated and paid at the rates valid for the corporate tax rate of the related years. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Companies file their tax returns until the 25th day of the fourth month after the closing of the accounting year to which they relate.

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

b. Deferred Tax Asset/Liability:

The Bank calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Income Taxes Standard” (“TAS 12”) and the related decrees of the BRSA concerning income taxes. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized. Deferred tax assets and liabilities are presented as net in the financial statements in accordance with TAS 12.

The deferred tax is calculated using the enacted tax rates that are valid as of the balance sheet date in accordance with the tax legislation in force. According to the Law, which was approved in the Grand National Assembly on 28 November 2017 and published in the Official Gazette dated 5 December 2017, the rate of Corporate Tax for the years 2018, 2019 and 2020 was increased from 20% to 22%. Therefore, deferred tax assets and liabilities are measured at the tax rate of 22% that are expected to apply to these periods when the assets is realised or the liability is settled, based on the Law that have been enacted. For the periods 2021 and after, the reversals of temporary differences are measured by 20%.

After net off the net deferred tax asset is presented as deferred tax asset on the balance sheet and net deferred tax liability presented as deferred tax liability on balance sheet. As of 31 December 2017, the Bank has recognized deferred tax receivables amounting to TL 146.265 as an asset (31 December 2016: Based on its best projections and budget and within the framework of TAS 12’s relevant procedures, the Bank has limited its deferred tax assets with its deferred tax liabilities. As of 31 December 2016 the bank has not recognized deferred tax receivables amounting to TL 151.679 as an asset).

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XVIII. EXPLANATIONS ON TAXATION (Continued)

Various operations and calculations with unascertained effects on final tax amount occur during standard workflow, and these require important judgement in determining income tax provision. Bank records tax liabilities caused by projections of additional taxes to be paid as a result of tax related incidents. In cases which final tax results based on these incidents differ from initially recorded amounts, differences may effect income tax and deferred tax assets of the period they are recognized.

c. Transfer Pricing:

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of “disguised profit distribution” by way of transfer pricing. “The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing” published at 18 November 2007, explains the application related issues on this topic. According to this communiqué, the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm’s length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes. As stated in the “7.1 Annual Documentation” section of this communiqué, the taxpayers are required to fill out the “Transfer Pricing, Controlled Foreign Entities and Thin Capitalization” form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices. Bank has filled out the related form and presented it to the tax office.

XIX. EXPLANATIONS ON BORROWINGS

The funds borrowed are recorded at their costs and discounted by using the effective interest rate method. In the financial statements enclosed, foreign currency borrowings are translated according to the Bank’s period end exchange rate. Interest expenses of the current period regarding the borrowing amounts are recognised in the financial statements. The Bank has no marketable securities issued and issued convertible bonds as of 31 December 2017 and 31 December 2016.

XX. EXPLANATIONS ON ISSUANCE OF SHARE CERTIFICATES

As of 31 December 2017 and 31 December 2016, the Bank has no issued share certificates.

XXI. EXPLANATIONS ON AVALIZED DRAFTS AND ACCEPTANCES

Availed drafts and acceptances are realized simultaneously with the customer payments and recorded in off-balance sheet accounts, if any.

XXII. EXPLANATIONS ON GOVERNMENT INCENTIVES

As of 31 December 2017 and 31 December 2016, the Bank has no government incentives.

XXIII. EXPLANATIONS ON OPERATING SEGMENTS

Segment reporting is presented in Note XII of Section Four.

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XXIV. PROFIT RESERVES AND PROFIT DISTRIBUTION

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

Under the Turkish Commercial Code (“TCC”) the legal reserves are composed of first and second reserves. The TCC requires first reserves to be 5% of the profit until the total reserves is equal to 20% of issued and fully paid-in share capital. Second reserves are required to be 10% of all cash profit distributions that are in excess of 5% of the issued and fully paid-in share capital. However holding companies are exempt from this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

XXV. EARNINGS/LOSS PER SHARE

Earnings/loss per share disclosed in the income statement are calculated by dividing net earnings/loss for the year to the number of shares.

	Current Period 31 December 2017	Prior Period 31 December 2016
Net Earnings/(Loss) for the Period	308.737	(356.598)
Number of Shares	65.229.000.000	65.229.000.000
Earnings /(Loss) per Share (*)	0,004733	(0,005467)

(*) Amounts are expressed in full TL.

XXVI. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement cash includes cash on hand, cash in transit, purchased bank cheques and demand deposits including balances with the Central Bank of the Republic of Turkey; and cash equivalents include interbank money market placements, reserve deposit average accounts, time deposits at banks and investments at marketable securities with original maturity periods of less than three months.

XXVII. RELATED PARTIES

Parties stated in the article no. 49 of the Banking Law No. 5411, Bank’s senior management, and board members are deemed as related parties. Transactions with related parties are presented in Note VII of Section Five.

XXVIII. RECLASSIFICATIONS

There are no adjustments to the prior year financial statements other than reclassifications which have been made on comparative figures, to conform to changes in presentation in the 31 December 2017 and 31 December 2016 financials.

XXIX. OTHER MATTERS

None.

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SECTION FOUR

EXPLANATIONS RELATED TO FINANCIAL STRUCTURE AND RISK MANAGEMENT

I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS’ EQUITY

Equity and Capital Adequacy Standard Ratio of the Bank is calculated in accordance with "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", and “Communiqué on Equities of Banks”. As of 31 December 2017, equity of the Bank is amounting to TL 3.580.597, and the Bank’s capital adequacy ratio is 17,56%. As of 31 December 2016, equity of the Bank is amounting to TL 4.246.289 and the Bank’s capital adequacy ratio is 20,38%. Capital adequacy ratio of the Bank is higher than the minimum rate required by the related regulation.

a. Information about shareholders’ equity items:

	Current Period 31 December 2017	Amount as per the regulation before 01.01.2014 (*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	652.290	
Share Premium	-	
Reserves	1.647.872	
Other Comprehensive Income according to TAS	-	
Profit	308.737	
Current Period Profit	308.737	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	2.608.899	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	48.410	
Leasehold Improvements on Operational Leases	19.280	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	118.206	147.758
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	48.221	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses from changes in bank’s liabilities’ fair values due to changes in creditworthiness	-	
Net amount of defined benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amounts exceeding 15% of Tier I Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (2nd article temporary second paragraph)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank owns more than 10% of the issued common share capital of the entity	-	
Amounts related to mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be Defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
Total Deductions from Common Equity Tier I Capital	234.117	
Total Common Equity Tier I Capital	2.374.782	

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**I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS’ EQUITY
(Continued)**

	Current Period 31 December 2017	Amount as per the regulation before 01.01.2014 (*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital	-	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank’s Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	-
Other items to be defined by the BRSA (-)	-	-
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	29.552	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	12.055	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
Total Deductions from Additional Tier I Capital	41.607	-
Total Additional Tier I Capital	2.333.175	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	2.333.175	-
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.039.940	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	210.169	-
Total Deductions from Tier II Capital	1.250.109	-
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank’s Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital	-	-
Other items to be defined by the BRSA (-)	190	-
Total Deductions from Tier II Capital	190	-
Total Tier II Capital	1.249.919	-
Total Equity (Total Tier I and Tier II Capital)	3.583.094	-
Amounts Deducted from Equity		
Loans Granted against the Articles 50 and 51 of the Banking Law	-	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	-	-
Other items to be Defined by the BRSA	2.497	-
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-	-

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	Current Period 31 December 2017	Amount as per the regulation before 01.01.2014 (*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	3.580.597	
Total Risk Weighted Assets	20.392.930	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	11,65	
Tier I Capital Ratio (%)	11,44	
Capital Adequacy Ratio (%)	17,56	
BUFFERS		
Bank-specific total CET1 Capital Ratio (%)	5,75	
Capital Conservation Buffer Ratio (%)	1,25	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,00	
Systematic-important Bank Buffer Ratio (%)	-	
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	5,89	
Amounts Lower Than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	430.929	
Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used	210.169	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1 January 2018-1 January 2022)		
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	
(*) Amounts to be recognized under transition regulations		

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	Prior Period 31 December 2016	Amount as per the regulation before 01.01.2014 (*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	652.290	
Share Premium	-	
Reserves	1.647.872	
Other Comprehensive Income according to TAS	-	
Profit	-	
Current Period Profit	-	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	2.300.162	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	27.571	
Leasehold Improvements on Operational Leases	6.613	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	75.341	125.569
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amounts exceeding 15% of Tier I Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (2nd article temporary second paragraph)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
Amounts related to mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be Defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
Total Deductions from Common Equity Tier I Capital	109.525	
Total Common Equity Tier I Capital	2.190.637	
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Additional Tier I Capital before Deductions	-	
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital	-	
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital (-)	-	
Other items to be defined by the BRSA	-	
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	50.228	
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	
Total Deductions from Additional Tier I Capital	50.228	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	2.140.409	

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TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.905.804	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	210.387	
Total Deductions from Tier II Capital	2.116.191	
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank’s Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the issued share capital exceeding the 10% Threshold of Common Equity Tier I Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-	
Other items to be defined by the BRSA (-)	214	
Total Deductions from Tier II Capital	214	
Total Tier II Capital	2.115.977	
Total Equity (Total Tier I and Tier II Capital)	4.256.386	
Amounts Deducted from Equity		
Loans Granted against the Articles 50 and 51 of the Banking Law	5	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	146	
Other items to be Defined by the BRSA	9.946	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-	

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	Prior Period 31 December 2016	Amount as per the regulation before 01.01.2014 (*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	4.246.289	
Total Risk Weighted Assets	20.832.390	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	10,52	
Tier I Capital Ratio (%)	10,27	
Capital Adequacy Ratio (%)	20,38	
BUFFERS		
Bank-specific total CET1 Capital Ratio	5,13	
Capital Conservation Buffer Ratio (%)	0,63	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,00	
Systematic-important Bank Buffer Ratio (%)	-	
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	5,39	
Amounts Lower Than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	481.729	
Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used	210.387	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1 January 2018-1 January 2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	

(*) Amounts to be recognized under transition regulations

b. Items included in capital calculation:

None.

**c. Approaches for assessment of adequacy of internal capital requirements for current and
future activities:**

The HSBC Bank’s assessment process of adequacy of internal capital requirements and capital adequacy policies" was prepared in order to describe the assessment process of adequacy of internal capital requirements and capital adequacy policies, and approved by its Board of Directors in 27 February 2017. The ultimate aim of this internal capital requirements process is to maintain the continuity of capital adequacy under the Bank’s strategies, business plan, and scope or in case of changes in developed assumption and methodology, the assessment methodology of internal capital requirements is a developing process, accordingly the future improvement areas are determined and the working plans are set.

With this evaluation process, on a prospective basis ensuring the continuity of the legal minimum limits of capital, keeping capital adequately to support the Bank’s targeted risk profile and ensuring the maintenance of capital adequately as well as the process of compliance with laws and regulations.

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d. Explanations on reconciliation of capital items with balance sheet amounts:

The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provision. In the calculation of Total Capital, general provision up to 1,25% credit risk is taken into consideration as Tier II Capital. Besides, losses that are subject to deductions from Common Equity Tier I and reflected to Equity in line with the TAS, are determined by excluding the losses related to cash flow hedge transactions. On the other hand, in the calculation of the Total Capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and related deferred tax liabilities, net book value of immovables that are acquired against overdue receivables and retained more than five years, other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

II. EXPLANATIONS ON CREDIT RISK

a. In terms of credit risks, subjecting borrower or a group of borrowers or geographic region and sectors to a risk limitation, the segmentation structure of the risk limits and determining the risk limit ranges:

In credit risk, there are no specific limitations for a specific geographical region. However, if there will be a risk which is affecting a specific region then the necessary limitation shall be applied and the necessary action shall be taken in order to revaluation of the risk. Risk monitoring and sectoral based customer group limitations are conducted. The limitations which are determined for a specific risk group are determined in accordance with Banking Regulation and other relevant regulations. Loan usages are monitored instantly by the system. The credits depending on a risk group are also evaluated in the consolidated financial tables. Loan proposal are considered once in a year, however, for the non-performing loans are considered in every 3 or 6 months.

Determining daily risk limits and allocating risks regarding the transactions conducted, customer’s and bank’s treasury department staff based monitoring on daily risk concentrations of off-balance risks:

According to HSBC Group standards, in all banking transactions approval and control mechanisms and systematical limit and risk control mechanisms are available. In assigning loan limits, extending credit, derivative and other future delivery derivative transactions are conducted depending to management’s authorization, approval and control processes. Customer’s and bank’s treasury department staff based monitoring is conducted on determining daily risk limits and risk allocations with risk concentrations regarding the balance sheet and off-balance transactions conducted. Product based risk parameters are considered when allocating limits for the derivative products.

The credit risk in the bank is managed taking legal limitations under legal regulations into consideration. In this scope, credit risk concentration is avoided.

Monitoring loan valuableness of the debtors of loan and other receivables at regular intervals in accordance with the relevant legislation, if the financial tables which are obtained for opened credits are audited in accordance with the relevant legislation or not, and if not the reasons of not auditing, changing the limits of loans, guarantees of the loans and other receivables:

Loan allocation decision is made by Credit Committee only if deemed reasonable. This decision is made according to the audited financial tables of the customer’s. Cash or non-cash loans can be extended to the customers.

Loan value of receivables from loans and other receivables are regularly traced in accordance with the relevant legislation, if necessary, actions such as limit increasing and decreasing, and strengthening the guarantee structure can be taken. The obtained financial tables regarding the credit requests should be audited in accordance with the relevant legislation.

Bank’s management has generated a customer degree (rating) system in order to determine loan value and the rate of risks of the corporate and personal loan customers which are subject to corporate.

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II. EXPLANATIONS ON CREDIT RISK (Continued)

Corporate and Commercial Loan Portfolio Rating System:

Customer Risk Rating System (CRR Rating) shows the probabilities of the non-performing loans of the loan borrowers. CRR rating is a summarized risk indicator which indicates the loan borrower’s financial situation, industry and past operations, management’s skills and other information including the cash flow, profitability and debt situation.

Regardless of guarantees and limits of the companies, CRR rating evaluates the risks objectively and independently and indicates the customer risk profiles in all aspects. The responsibility of the compliance of the CRR rate given belongs to the staff who approved the last control. The reviews over the CRR rates given are conducted at least once in a year and at each credit application reviews. Also in necessary cases the units which approve loans can reassess the CRR rates and indicate necessary changes.

10 basic customer risk rating ranges are as follows:

CRR 1.0 - Minimal Risk - Firm’s financial situation (equity capital, income, cash generating capacity and management functions) is perfect. CRR 1.0 rate indicates the best credit risk available and there is almost no risk that the firm may be unable to meet its obligations.

CRR 2.0 - Low Risk - Firm’s financial situation (equity capital, income, cash generating capacity and management functions) is very good.

CRR 3.0 - Acceptable Risk - Firm’s financial situation (equity capital, income, cash generating capacity and management functions) is satisfactory in every respect and there are no adverse events.

CRR 4.0 - Reasonable Risk - Firm’s financial situation (equity capital, income, cash generating capacity and management functions) is durable. The risk of the firm’s inability to meet its obligations is at a reasonable level and more frequent surveillance is needed.

CRR 5.0 - Moderate Risk - Firm’s financial situation (equity capital, income, cash generating capacity and management functions) is at an average level. Current situation is not ominous. However, firm’s sensitivity to external events is needed to be observed more frequently and enhancing the firm’s risk of inability to meet the obligations.

CRR 6.0 - Significant Risk - There is a known downtrend in the firm’s financial situation (equity capital, income, cash generating capacity and management functions) and there are one or more problematic issues. Although, the current capacity of the firm is sufficient to meet its obligations, some potential risks may give harm to firm’s financial situation. More frequent surveillance is needed. In normal situations, credit ratings made as CRR 6.0 are temporary and expected to change in maximum 18 months. Cash collateral credits can be given as an example of exception.

CRR 7.0 - High Risk - There is a continuous downtrend in the firm’s financial situation (equity capital, income, cash generating capacity and management functions) and this situation is needed to be continuously observed and assessed. Although the firm is disquieting regarding the ability of meeting its obligations, it is thought that the firm has sufficient capacity to meet its obligations.

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II. EXPLANATIONS ON CREDIT RISK (Continued)

CRR 8.0 - The Risk Requiring Special Management - The financial situation (equity capital, income, cash generating capacity and management functions) of the firm is generally weakened (for instance: negative equity capital, inability of making salary payments and etc.) or payment capacity and intention has become suspicious. This situation is requiring continuous surveillance and assessment. Concerns regarding the firm’s ability of meeting its obligations are growing and the possibilities of the firm’s ability to meet its obligations are decreasing.

CRR 9.0 - Suspicious - The possibility of collecting the full amount of principal and proceeds is very low. Provisions must be reserved. At least one of the situations below may be eventuated:

- Debtor, is late more than 90 days to meet its obligations to the Bank.
- Achieving no results from debt restructuring approaches.
- Restructured debt lapsed into default again.
- Legal proceedings have begun.
- In some cases that risk is evaluated to be in restructuring, provisions may not be booked for related risks even the risks are in the scope of CRR 9.0 classification.

CRR 10.0 - Loss - Collection is not expected.

Total amount of risks after offsetting transactions and average amount of risks allocated to different risk classes and types for relevant period without considering effects of credit risk mitigation:

Risk Classifications	Current Period Risk Amount	Average Risk Amount (*)
Conditional and unconditional receivables from central governments or central banks	5.246.593	7.100.221
Conditional and unconditional receivables from regional governments or local governments	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	67	67
Conditional and unconditional receivables from multilateral development banks	-	-
Conditional and unconditional receivables from international organizations	-	-
Conditional and unconditional receivables from banks and brokerage houses	2.585.277	2.816.990
Conditional and unconditional corporate receivables	11.926.082	10.835.500
Conditional and unconditional retail receivables	4.136.768	4.484.414
Conditional and unconditional receivables secured by mortgages	696.616	769.450
Past due receivables	289.673	366.844
Receivables defined in high risk category by BRSA	-	-
Securities collateralized by mortgages	-	-
Securitization positions	-	-
Short-term receivables from to banks, brokerage houses and corporates	-	-
Investments of natured collective investment enterprise	-	-
Stock Investments	-	-
Other receivables	445.183	466.035
Total	25.326.259	26.839.521

(*) The average risk amount is determined by taking the arithmetic mean of values in the month-end reports.

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II. EXPLANATIONS ON CREDIT RISK (Continued)

Risk Classifications	Prior Period Risk Amount	Average Risk Amount (*)
Conditional and unconditional receivables from central governments or central banks	3.152.328	5.277.776
Conditional and unconditional receivables from regional governments or local governments	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	60	50
Conditional and unconditional receivables from multilateral development banks	-	-
Conditional and unconditional receivables from international organizations	-	-
Conditional and unconditional receivables from banks and brokerage houses	3.279.781	3.211.406
Conditional and unconditional corporate receivables	9.014.374	11.579.378
Conditional and unconditional retail receivables	5.266.978	6.017.477
Conditional and unconditional receivables secured by mortgages	1.039.915	1.216.491
Past due receivables	468.817	501.331
Receivables defined in high risk category by BRSA	-	332.738
Securities collateralized by mortgages	-	-
Securitization positions	-	-
Short-term receivables from to banks, brokerage houses and corporates	-	-
Investments of natured collective investment enterprise	-	-
Stock Investments	-	-
Other receivables	464.902	574.702
Total	22.687.155	28.711.349

(*) The average risk amount is determined by taking the arithmetic mean of values in the month-end reports.

b. Control limits on position of Bank’s forward transactions and option agreements and other similar instruments, manageability of credit risk for these kind of instruments and the potential risks arising from the market movements:

The loan risks undertaken for the forward transactions, option agreements and similar instruments are monitored with considering the potential risks arising from the market movements and risk limit control is conducted from current market prices constantly.

c. When the Bank is significantly subject to the loan risk, in order to reduce the total risks, the Bank terminates the forward transactions, option and similar agreements in a short time period through using, fulfilling the acts or selling:

During the management of the balance sheet, interest and liquidity risks, the Parent Bank’s constantly uses derivatives and its resources in the international financial markets within the limits allocated in order to reduce and control risks. When necessary portfolio based loan risks could be reduced with loan derivatives and suchlike instruments.

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II. EXPLANATIONS ON CREDIT RISK (Continued)

d. Risk weight subject to non-cash loans turned into cash loans:

As of 31 December 2017, the Bank has TL 22 (31 December 2016: TL 36) of non-cash loans turned into cash loans.

The liquidated non-cash loans are subject to the same risk weight with the overdue loans.

Allocation of the non-cash loans turned into cash loans are presented in the table below:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Letters of Guarantee	10	-	-	-
Prefinancing Loans	-	-	-	-
Commercial Letter of Credit Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Bad Check Payments	12	-	36	-
Other Liabilities	-	-	-	-
Total	22	-	36	-

Information on whether the loans that are renewed and rescheduled are included in a new rating group as determined by the Bank’s risk management system, other than the follow-up plan defined in the banking regulations or not; whether new precautions are considered in these methods or not; whether the Bank’s risk management accepts long term commitments as having more risk than short term commitments which results in a diversification of risk or not;

All loans are evaluated considering the credit rating of the client. Loans that are bound to a redemption plan are followed in a separate category as closely followed risky loans. Risk levels of the loans bound to a redemption plan are updated according to the rating system of the Parent Bank. In the firms whose risk level increases, certain actions are taken with regard to risk management, such as risk is registered as liquidation, guarantee is improved or limits are decreased.

e. Evaluation of the significance of country specific risk if the banks have foreign operations and credit transactions in a few countries or these operations are coordinated with a few financial entities:

Since the Bank carries out its foreign banking transactions and credit facilities through a widespread correspondent network and HSBC Group banks by revising and following the credit ratings of OECD countries and relevant institutions, country risks, market conditions, it is thought that there is no significant risk element.

Evaluation of the Bank’s competitive credit risk as being an active participant in the international banking transactions market:

The credit risk in the bank is managed taking legal limitations under legal regulations into consideration. In this scope, credit risk concentration is avoided.

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II. EXPLANATIONS ON CREDIT RISK (Continued)

- f. The proportion of the Bank’s top 100 and 200 cash loan balances in total cash loans: 59% and 69% (31 December 2016: 44% and 53%).**

The proportion of the Bank’s top 100 and 200 non-cash loan balances in total non-cash loans: 93% and 99% (31 December 2016: 94% and 98%).

The proportion of the Bank’s cash and non-cash loan balances with the first 100 and 200 customers comprises of total cash loans and non-cash loans: 58% and 71% (31 December 2016: 45% and 56%).

- g. General loan loss provision booked by the Bank: TL 430.929 (31 December 2016: TL 481.729).**

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II. EXPLANATIONS ON CREDIT RISK (Continued)

h. Profile on significant risks in significant regions, risk profile according to sectors and counterparties and term distribution of risks with term structure:

Current Period 31 December 2017	Risk Categories (***)																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Total
Domestic	5.246.593	-	67	-	-	999.918	11.865.652	4.121.952	689.535	289.663	-	-	-	-	-	-	445.183	23.658.563
European Union Countries	-	-	-	-	-	988.651	60.420	6.936	3.922	10	-	-	-	-	-	-	-	1.059.939
OECD Countries (*)	-	-	-	-	-	67.632	-	197	79	-	-	-	-	-	-	-	-	67.908
Off – Shore Banking Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	378.384	4	538	264	-	-	-	-	-	-	-	-	379.190
Other Countries	-	-	-	-	-	150.692	6	7.145	2.816	-	-	-	-	-	-	-	-	160.659
Associates, Subsidiaries and Joint Venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Undistributed Assets / Liabilities (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	5.246.593	-	67	-	-	2.585.277	11.926.082	4.136.768	696.616	289.673	-	-	-	-	-	-	445.183	25.326.259

(*) Risk categories that are defined in "Communiqué on Measurement and Assessment of Capital Adequacy of Banks".

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

(***) Assets and liabilities that are not distributed according to a consistent principle

- 1 Conditional and unconditional receivables from central governments or central banks
- 2 Conditional and unconditional receivables from regional governments or local governments
- 3 Conditional and unconditional receivables from administrative units and non-commercial enterprises
- 4 Conditional and unconditional receivables from multilateral development banks
- 5 Conditional and unconditional receivables from international organizations
- 6 Conditional and unconditional receivables from banks and brokerage houses
- 7 Conditional and unconditional corporate receivables
- 8 Conditional and unconditional retail receivables
- 9 Conditional and unconditional receivables secured by mortgages
- 10 Past due receivables
- 11 Receivables defined in high risk category by BRSA
- 12 Securities collateralized by mortgages
- 13 Securitization positions
- 14 Short-term receivables from to banks, brokerage houses and corporates
- 15 Investments of natured collective investment enterprise
- 16 Stock Investments
- 17 Other receivables

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II. EXPLANATIONS ON CREDIT RISK (Continued)

Prior Period 31 December 2016	Risk Categories (***)																	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
Domestic	3.005.195	-	60	-	-	896.234	8.883.130	5.246.927	1.027.589	463.919	-	-	-	-	-	-	429.879	19.952.933
European Union Countries	-	-	-	-	-	1.241.258	102.742	5.769	7.231	40	-	-	-	-	-	-	-	1.357.040
OECD Countries (*)	-	-	-	-	-	57.296	-	36	326	-	-	-	-	-	-	-	-	57.658
Off – Shore Banking Regions	-	-	-	-	-	334	-	-	-	-	-	-	-	-	-	-	-	334
USA, Canada	-	-	-	-	-	679.858	20.100	556	761	-	-	-	-	-	-	-	-	701.275
Other Countries	147.133	-	-	-	-	404.801	8.402	13.690	4.008	4.858	-	-	-	-	-	-	-	582.892
Associates Subsidiaries and Joint Venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35.023	35.023
Undistributed Assets / Liabilities (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	3.152.328	-	60	-	-	3.279.781	9.014.374	5.266.978	1.039.915	468.817	-	-	-	-	-	-	464.902	22.687.155

(*) Risk categories that are defined in "Communiqué on Measurement and Assessment of Capital Adequacy of Banks".

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

(***) Assets and liabilities that are not distributed according to a consistent principle

- 1 Conditional and unconditional receivables from central governments or central banks
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- 3 Conditional and unconditional receivables from administrative units and non-commercial enterprises
- 4 Conditional and unconditional receivables from multilateral development banks
- 5 Conditional and unconditional receivables from international organizations
- 6 Conditional and unconditional receivables from banks and brokerage houses
- 7 Conditional and unconditional corporate receivables
- 8 Conditional and unconditional retail receivables
- 9 Conditional and unconditional receivables secured by mortgages
- 10 Past due receivables
- 11 Receivables defined in high risk category by BRSA
- 12 Securities collateralized by mortgages
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II. EXPLANATIONS ON CREDIT RISK (Continued)

i. Risk profile according to Sectors and Counterparties:

Current Period 31 December 2017 Sectors/Counterparties	Risk Categories (*)																	TL	FC	Total	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17				
Agricultural	-	-	-	-	-	-	88.645	481	-	244	-	-	-	-	-	-	-	39.713	49.657	89.370	
Farming and Raising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Livestock	-	-	-	-	-	-	59.636	393	-	215	-	-	-	-	-	-	-	39.453	20.791	60.244	
Forestry	-	-	-	-	-	-	106	81	-	29	-	-	-	-	-	-	-	216	-	216	
Fishing	-	-	-	-	-	-	28.903	7	-	-	-	-	-	-	-	-	-	44	28.866	28.910	
Industry	-	-	-	-	-	-	6.466.973	84.668	106.756	85.237	-	-	-	-	-	-	-	445.183	3.649.771	3.539.046	7.188.817
Mining and Quarrying	-	-	-	-	-	-	15.176	194	-	3.499	-	-	-	-	-	-	-	4.277	14.592	18.869	
Production	-	-	-	-	-	-	5.900.845	81.736	106.756	81.696	-	-	-	-	-	-	-	445.183	3.578.501	3.037.715	6.616.216
Electricity, Gas, Water	-	-	-	-	-	-	550.952	2.738	-	42	-	-	-	-	-	-	-	66.993	486.739	553.732	
Construction	-	-	-	-	-	-	924.102	6.227	44.694	10.429	-	-	-	-	-	-	-	79.314	906.138	985.452	
Services	5.246.593	-	-	-	-	2.585.277	3.377.762	28.304	166.688	41.636	-	-	-	-	-	-	-	6.173.502	5.272.758	11.446.260	
Wholesale and Retail Trade	-	-	-	-	-	-	1.934.999	19.513	5.622	39.442	-	-	-	-	-	-	-	1.044.458	955.118	1.999.576	
Hotel and Beverage Service	-	-	-	-	-	-	297.013	277	8.720	1.872	-	-	-	-	-	-	-	285.483	22.399	307.882	
Transportation and	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Telecommunication	-	-	-	-	-	-	730.423	4.008	16.400	296	-	-	-	-	-	-	-	237.178	513.949	751.127	
Financial Institutions	5.246.593	-	-	-	-	2.585.277	54.366	13	-	2	-	-	-	-	-	-	-	4.597.388	3.288.863	7.886.251	
Real Estate and Lending	-	-	-	-	-	-	360.283	3.890	135.946	19	-	-	-	-	-	-	-	7.752	492.386	500.138	
Service	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1	-	1	
Self-Employment Service	-	-	-	-	-	-	199	103	-	2	-	-	-	-	-	-	-	304	-	304	
Education Service	-	-	-	-	-	-	478	500	-	3	-	-	-	-	-	-	-	938	43	981	
Health and Social Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	67	-	-	-	1.068.600	4.017.088	378.478	152.127	-	-	-	-	-	-	-	5.012.403	603.957	5.616.360	
TOTAL	5.246.593	-	67	-	-	2.585.277	11.926.082	4.136.768	696.616	289.673	-	-	-	-	-	-	-	445.183	14.954.703	10.371.556	25.326.259

(*) Risk categories that are defined in "Communiqué on Measurement and Assessment of Capital Adequacy of Banks".

- 1 Conditional and unconditional receivables from central governments or central banks
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II. EXPLANATIONS ON CREDIT RISK (Continued)

Prior Period 31 December 2016 Sectors/Counterparties	Risk Categories (*)																	TL	FC	Total	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17				
Agricultural	-	-	-	-	-	-	33.530	1.323	48	2.273	-	-	-	-	-	-	-	17.003	20.171	37.174	
Farming and Raising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Livestock	-	-	-	-	-	-	17.432	319	-	2.146	-	-	-	-	-	-	-	15.652	4.245	19.897	
Forestry	-	-	-	-	-	-	2.751	913	48	106	-	-	-	-	-	-	-	1.173	2.645	3.818	
Fishing	-	-	-	-	-	-	13.347	91	-	21	-	-	-	-	-	-	-	178	13.281	13.459	
Industry	-	-	-	-	-	166	4.757.144	120.550	100.523	114.566	-	-	-	-	-	-	464.902	2.502.509	3.055.342	5.557.851	
Mining and Quarrying	-	-	-	-	-	-	21.458	1.441	2.293	5.075	-	-	-	-	-	-	-	7.046	23.221	30.267	
Production	-	-	-	-	-	166	4.455.151	117.604	98.230	109.429	-	-	-	-	-	-	464.902	2.416.974	2.828.508	5.245.482	
Electricity, Gas, Water	-	-	-	-	-	-	280.535	1.505	-	62	-	-	-	-	-	-	-	78.489	203.613	282.102	
Construction	-	-	-	-	-	-	1.051.397	9.782	215.222	17.156	-	-	-	-	-	-	-	95.478	1.198.079	1.293.557	
Services	3.152.328	-	45	-	-	3.279.503	3.136.743	68.674	55.584	59.017	-	-	-	-	-	-	-	3.440.626	6.311.268	9.751.894	
Wholesale and Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Trade	-	-	-	-	-	-	1.326.301	39.879	51.222	48.561	-	-	-	-	-	-	-	703.477	762.486	1.465.963	
Hotel and Beverage	-	-	-	-	-	-	28.286	3.742	137	3.229	-	-	-	-	-	-	-	8.723	26.671	35.394	
Transportation and	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Telecommunication	-	-	-	-	-	-	894.350	6.898	2.669	4.872	-	-	-	-	-	-	-	121.165	787.624	908.789	
Financial Institutions	3.152.328	-	-	-	-	3.279.503	21.670	579	-	2	-	-	-	-	-	-	-	2.227.327	4.226.735	6.454.082	
Real Estate and Lending	-	-	-	-	-	-	5.407	339	-	-	-	-	-	-	-	-	-	494	5.252	5.746	
Service	-	-	-	-	-	-	708.900	12.294	477	387	-	-	-	-	-	-	-	283.744	438.359	722.103	
Self-Employment Service	-	-	45	-	-	-	229	321	-	3	-	-	-	-	-	-	-	553	-	553	
Education Service	-	-	-	-	-	-	151.600	4.622	1.079	1.963	-	-	-	-	-	-	-	95.143	64.121	159.264	
Health and Social Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	15	-	-	112	35.560	5.066.649	668.538	275.805	-	-	-	-	-	-	-	6.020.208	26.471	6.046.679	
TOTAL	3.152.328	-	60	-	-	3.279.781	9.014.374	5.266.978	1.039.915	468.817	-	-	-	-	-	-	-	464.902	12.075.824	10.611.331	22.687.155

(*) Risk categories that are defined in "Communiqué on Measurement and Assessment of Capital Adequacy of Banks".

- 1 Conditional and unconditional receivables from central governments or central banks
- 2 Conditional and unconditional receivables from regional governments or local governments
- 3 Conditional and unconditional receivables from administrative units and non-commercial enterprises
- 4 Conditional and unconditional receivables from multilateral development banks
- 5 Conditional and unconditional receivables from international organizations
- 6 Conditional and unconditional receivables from banks and brokerage houses
- 7 Conditional and unconditional corporate receivables
- 8 Conditional and unconditional retail receivables
- 9 Conditional and unconditional receivables secured by mortgages
- 10 Past due receivables
- 11 Receivables defined in high risk category by BRSA
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II. EXPLANATIONS ON CREDIT RISK (Continued)

j. Term distribution of risks with term structure:

Current Period - Risk Categories	Up to 1 Month	1-3 Months	Time to Maturity			Unallocated
			3-6 Months	6-12 Months	1 Year and Over	
Conditional and unconditional receivables from central governments or central banks	3.895.813	-	-	-	1.350.780	-
Conditional and unconditional receivables from regional governments or local governments	-	-	-	-	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	67	-	-	-	-	-
Conditional and unconditional receivables from multilateral development banks	-	-	-	-	-	-
Conditional and unconditional receivables from international organizations	-	-	-	-	-	-
Conditional and unconditional receivables from banks and brokerage houses	1.119.835	254.770	335.049	234.308	641.315	-
Conditional and unconditional corporate receivables	2.643.713	1.879.587	1.576.113	1.755.649	4.071.020	-
Conditional and unconditional retail receivables	87.576	68.885	71.845	169.232	3.739.230	-
Conditional and unconditional receivables secured by mortgages	9.139	4.505	8.482	19.672	654.818	-
Past due receivables	-	-	-	-	-	289.673
Receivables defined in high risk category by BRSA	-	-	-	-	-	-
Securities collateralized by mortgages	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-
Short-term receivables from to banks, brokerage houses and corporates	-	-	-	-	-	-
Investments of natured collective investment enterprise	-	-	-	-	-	-
Stock Investments	-	-	-	-	-	-
Other receivables	428.232	-	-	-	16.951	-
TOTAL	8.184.375	2.207.747	1.991.489	2.178.861	10.474.114	289.673

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II. EXPLANATIONS ON CREDIT RISK (Continued)

Prior Period - Risk Categories	Time to Maturity					Unallocated
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	
Conditional and unconditional receivables from central governments or central banks	1.895.180	320.363	150.899	246.233	539.653	-
Conditional and unconditional receivables from regional governments or local governments	-	-	-	-	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	60	-	-	-	-	-
Conditional and unconditional receivables from multilateral development banks	-	-	-	-	-	-
Conditional and unconditional receivables from international organizations	-	-	-	-	-	-
Conditional and unconditional receivables from banks and brokerage houses	1.368.116	427.412	440.832	258.907	784.514	-
Conditional and unconditional corporate receivables	1.356.690	1.486.070	808.369	1.402.247	3.960.998	-
Conditional and unconditional retail receivables	96.603	102.686	103.380	301.127	4.663.182	-
Conditional and unconditional receivables secured by mortgages	8.630	8.797	21.530	76.897	924.061	-
Past due receivables	-	-	-	-	-	468.817
Receivables defined in high risk category by BRSA	-	-	-	-	-	-
Securities collateralized by mortgages	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-
Short-term receivables from to banks, brokerage houses and corporates	-	-	-	-	-	-
Investments of natured collective investment enterprise	-	-	-	-	-	-
Stock Investments	-	-	-	-	-	-
Other receivables	434.219	-	-	-	30.683	-
TOTAL	5.159.498	2.345.328	1.525.010	2.285.411	10.903.091	468.817

k. Explanations regarding risk categories mentioned in 6th clause of Capital Adequacy Measurement and Evaluation Communiqué:

An international rating firm, Moody’ s Ratings’ external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks". Additionally, grades of Moody’ s Ratings International Rating Agency were used for receivables from central government and central bank of our country and counter parties at abroad. Counter parties resident are accepted as “gradeless” and take risk weight suited for “gradeless” category in relevant risk class.

Rating Scores;

1. Receivables from Central Governments or Central Banks
2. Receivables from Banks and Brokerage Houses

are used in risk classes.

While credit quality level grade given by Moody’ s Ratings International Rating Agency decreases to 4, grades using in risk class of receivables from banks and intermediary institutions matched with all credit quality levels from 1 to 6 in risk classes of Receivables from Central Governments or Central Banks.

For determination of risk weight regarding items that export or issuer rating not included to purchase/sale accounts is firstly considered to export rating, and also issuer’ s credit rating is considered in the absence of export rating.

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II. EXPLANATIONS ON CREDIT RISK (Continued)

Credit Quality Degrees	Moody's Risk Rating	Risk Categories		
		Exposures to Central Governments or Central Banks	Exposures to Central Governments or Central Banks	
			Exposures with Remaining Maturities Less Than 3 Months	Exposures with Remaining Maturities More Than 3 Months
1	Aaa Aa1 Aa2 Aa3	%0	%20	%20
2	A1 A2 A3	%20	%20	%50
3	Baa1 Baa2 Baa3	%50	%20	%50
4	Ba1 Ba2 Ba3	%100	%50	%100
5	B1 B2 B3	%100	%50	%100
6	Caa1 Caa2 Caa3 Ca C	%150	%150	%150

1. Risk amounts according to risk weights:

31 December 2017	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Deducted From Equity
1. Amount Before Credit Risk Mitigation	5.436.470	-	1.644.628	378.424	1.125.738	3.938.866	12.638.662	77.482	-	85.989	-	2.497
2. Amount After Credit Risk Mitigation	5.436.470	-	1.644.628	378.424	1.125.738	3.938.866	12.503.896	77.482	-	85.989	-	2.497

31 December 2016	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Deducted From Equity
1. Amount Before Credit Risk Mitigation	1.670.476	-	2.159.729	676.057	1.197.070	5.087.974	11.737.212	158.637	-	-	-	10.097
2. Amount After Credit Risk Mitigation	1.656.994	-	2.159.729	676.057	1.197.070	5.087.974	11.509.929	158.637	-	-	-	10.097

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II. EXPLANATIONS ON CREDIT RISK (Continued)

m. Definitions of the non-performing and impaired factors in accounting application:

According to the “Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves” published in the Official Gazette numbered 26333 dated 1 November 2006 which was amended with the communiqué published in the Official Gazette numbered 27119 dated 23 January 2009; non-required delay time loans that is not classified as Group III Loans, whose principal and interest payment collection delayed more than 30 days are considered as Non-Performing Loan in the Accounting Practice; group III, IV and V loans defined on the mentioned communiqué are considered as impaired receivables without considering refinancing or addition accrued interest and quasi-interest loading to principal.

The Bank provides specific reserves to Group III, IV and V loans in accordance with “Communique on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves”.

n. Sector or type of counterparty; separately impaired loans and amount of non-performing loans, value adjustments and provisions, amount of value adjustments and provisions during period:

Miscellaneous Information regarding Major Sectors or Counterparty Type:

Current Period Major Sectors/ Counterparties	Credits			
	Impaired Credits	Past due Credits (*)	Value Adjustments (**)	Provisions (***)
Agricultural	507	90	3	260
Farming and Raising livestock	350	36	1	132
Forestry	40	53	2	11
Fishing	117	1	-	117
Industry	213.081	486.540	19.462	126.877
Mining and Quarrying	4.673	34	1	1.127
Production	208.352	486.501	19.461	125.737
Electricity, Gas, Water	56	5	-	13
Construction	15.122	34.638	1.386	4.641
Services	71.826	72.544	2.902	22.469
Wholesale and Retail Trade	58.374	6.131	245	15.954
Hotel and Beverage Services	3.157	15.821	633	1.286
Transportation and Telecommunication	1.724	33.525	1.341	1.431
Financial Institutions	12	18	1	6
Real Estate and Lending Services	6	-	-	3
Self-Employment Services	3.940	8.709	348	1.431
Education Services	803	-	-	219
Health and Social Services	3.810	8.340	334	2.139
Other	562.615	175.646	17.575	433.120
Total	863.151	769.458	41.328	587.367

(*) Close monitoring amounts.

(**) General provisions that are provided for non-performing loans.

(***) Specific provisions that are provided for decreased-in-value loans.

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II. EXPLANATIONS ON CREDIT RISK (Continued)

Prior Period Major Sectors/ Counterparties	Credits			
	Impaired Credits	Past due Credits (*)	Value adjustments (**)	Provisions (***)
Agricultural	3.914	544	10	1.528
Farming and Raising Livestock	3.672	278	5	1.456
Forestry	207	172	3	59
Fishing	35	94	2	13
Industry	274.635	564.748	18.285	155.414
Mining and Quarrying	6.204	3.949	98	1.059
Production	267.773	559.758	18.167	153.790
Electricity, Gas, Water	658	1.041	20	565
Construction	21.316	43.918	1.221	3.985
Services	88.685	74.638	1.766	28.412
Wholesale and Retail Trade	69.224	29.848	623	19.567
Hotel and Beverage Services	4.521	4.987	131	1.215
Transportation and Telecommunication	6.932	7.966	137	2.959
Financial Institutions	13	66	1	10
Real Estate and Lending Services	2	22	-	2
Self-Employment Services	2.758	17.078	395	2.071
Education Services	932	107	2	315
Health and Social Services	4.303	14.564	477	2.273
Other	1.042.356	343.431	37.011	791.939
Total	1.430.906	1.027.279	58.293	981.278

(*) Close monitoring amounts.

(**) General provisions that are provided for non-performing loans.

(***) Specific provisions that are provided for decreased-in-value loans.

o. Reconciliation of changes in value adjustments and provisions for impaired loan (if possible on basis of geographic regions):

Current Period 31 December 2017	Opening Balance	Provisions provided during the period	Provision Reversals	Other Adjustments(*)	Closing Balance
Specific Provisions	981.278	468.087	(233.101)	(628.897)	587.367
General Provisions	481.729	-	(50.800)	-	430.929

(*) Represents other adjustments that are written off from assets and the sales from non-performing loans portfolio.

Prior Period 31 December 2016	Opening Balance	Provisions provided during the period	Provision Reversals	Other Adjustments(*)	Closing Balance
Specific Provisions	785.942	543.005	(95.600)	(252.069)	981.278
General Provisions	457.075	-	(44.821)	69.475	481.729

(*) Represents other adjustments that are written off from assets and the sales from non-performing loans portfolio. As of 31 December 2016, free provisions for possible losses amounting to TL 69.475 are classified in general loan loss provisions as of 31 March 2017.

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II. EXPLANATIONS ON CREDIT RISK (Continued)

p. The movement of specific provision of the Bank’s loan and other receivables:

	Commercial Loans	Consumer Loans	Credit Cards	Total
1 January 2017	191.350	321.241	468.687	981.278
Transferred during the period	169.490	100.280	198.317	468.087
Collection during the period	(135.831)	(38.356)	(58.914)	(233.101)
Write-off/sold	(69.828)	(221.489)	(337.580)	(628.897)
31 December 2017	155.181	161.676	270.510	587.367
	Commercial Loans	Consumer Loans	Credit Cards	Total
1 January 2016	186.674	234.380	364.888	785.942
Transferred during the period	102.329	179.435	261.241	543.005
Collection during the period	(14.574)	(33.493)	(47.533)	(95.600)
Write-off/sold	(83.079)	(59.081)	(109.909)	(252.069)
31 December 2016	191.350	321.241	468.687	981.278

r. Information on types of loans and provisions:

	Commercial Loans	Consumer Loans	Credit Cards	Total
Current Period - 31 December 2017				
Standard loans	10.578.123	1.709.748	2.273.704	14.561.575
Close monitoring loans	600.026	73.687	95.745	769.458
Non-performing loans	297.821	225.250	340.080	863.151
Specific provisions (-)	155.181	161.676	270.510	587.367
Total	11.320.789	1.847.009	2.439.019	15.606.817

(*) Includes the factoring receivables amounting to TL 394.213.

	Commercial Loans	Consumer Loans	Credit Cards	Total
Prior Period - 31 December 2016				
Standard loans	8.030.453	2.431.147	2.692.546	13.154.146
Close monitoring loans	683.923	146.143	197.213	1.027.279
Non-performing loans	386.228	442.523	602.155	1.430.906
Specific provisions (-)	191.350	321.241	468.687	981.278
Total	8.909.254	2.698.572	3.023.227	14.631.053

(*) Includes the factoring receivables amounting to TL 476.308.

s. Information on collaterals for non-performing loans of the Bank:

	Current Period 31 December 2017 Collateral Value	Prior Period 31 December 2016 Collateral Value
Mortgages	397.974	562.311
Pledged Vehicle	6.772	5.418
Cheques and Notes	-	-
Cash	485	790
Total	405.231	568.519

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III. EXPLANATIONS ON COUNTER CYCLICAL CAPITAL BUFFER RATIO CALCULATION

In accordance with BRSA decree dated 24 December 2015 effective from 1 January 2016, the counter-cyclical capital buffer ratio for banks in Turkey will be considered as 0%.

IV. EXPLANATIONS ON CURRENCY RISK

a. Exposed risk of foreign currency, estimations on the effects of this matter, limits for the daily followed positions are determined by the Board of Directors:

In foreign currency risk management, the Bank makes tiny distinctions and generally attentive to not taking long position when organizing the currency risk. In organizing foreign currency positions, the Bank acts in accordance with both the legal limitations and the limitations determined by the Board of the Directors.

b. Hedge against foreign exchange debt instruments and net foreign exchange investments by hedging derivative instruments, if material:

The Bank, as a general principle does not carry any foreign currency position, by hedging its foreign currency positions with derivative products. Foreign exchange bid rate of important foreign currencies are indicated in the table below.

c. Management policy for foreign currency risk:

Policy of the foreign currency risk management is explained in the first article.

d. Current foreign exchange bid rates of the Bank for the last five business days prior to the financial statement date:

The Bank’s foreign exchange bid rates for US Dollar, and Euro as of the date of the financial statements and for the last five days prior to that date are presented below:

Current Period – 31 December 2017	USD (\$)	Euro (€)
Balance Sheet Date		
Bank Evaluation Rate	3,7816	4,5332
Prior Balance Sheet Date		
29 December 2017	3,7816	4,5332
28 December 2017	3,7758	4,5111
27 December 2017	3,8232	4,5527
26 December 2017	3,8182	4,5253
25 December 2017	3,8182	4,5253
Prior Period - 31 December 2016	USD (\$)	Euro (€)
Balance Sheet Date		
Bank Evaluation Rate	3,5263	3,7161
Prior Balance Sheet Date		
30 December 2016	3,5263	3,7161
29 December 2016	3,5313	3,6926
28 December 2016	3,5435	3,6821
27 December 2016	3,5130	3,6702
26 December 2016	3,5130	3,6702

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IV. EXPLANATIONS ON CURRENCY RISK (Continued)

e. The simple arithmetic average of the Bank’s foreign exchange bid rates for the last thirty days preceding the balance sheet date for major foreign currencies:

As of December 2017, the Bank’s simple arithmetic average foreign exchange rate for USD is TL 3,8421 (December 2016: TL 3,5018) and exchange rate for Euro is TL 4,5487 (December 2016: TL 3,6881).

f. Information related to Bank’s currency risk:

Current Period – 31 December 2017	Euro	USD	Other FC	Total
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	493.888	1.134.790	303.791	1.932.469
Banks	1.173	332.818	9.121	343.112
Financial Assets at Fair Value through Profit or Loss (Net)	150.455	374.127	2.405	526.987
Interbank Money Market Placements	-	1.584.745	-	1.584.745
Financial Assets Available-for-Sale (Net)	8.874.46	-	-	8.874
Loans (*)	3.323.030	2.393.187	1.192	5.717.409
Investments in Associates, Subsidiaries and Joint Ventures (Business Partners)	-	-	-	-
Investments Held-to-Maturity (Net)	-	-	-	-
Hedging Derivative Financial Assets	-	-	-	-
Tangible Assets (Net)	-	-	-	-
Intangible Assets (Net)	-	-	-	-
Other Assets (**)	6.833	130.757	340	137.930
Total Assets	3.984.253	5.950.424	316.849	10.251.526
Liabilities				
Bank Deposits	-	1.418.110	-	1.418.110
Foreign Currency Deposits	3.041.081	6.299.270	808.473	10.148.824
Funds from Interbank Money Market	-	-	-	-
Fund Borrowed	6.579	2.879.588	-	2.886.167
Issued Marketable Securities (Net)	-	-	-	-
Miscellaneous Payables	9.858	3.831	4	13.693
Hedging Derivative Financial Liabilities	-	-	-	-
Other Liabilities	347.847	192.503	13.584	553.934
Total Liabilities	3.405.365	10.793.302	822.061	15.020.728
Net on Balance Sheet Position	578.888	(4.842.878)	(505.212)	(4.769.202)
Net Off-Balance Sheet Position	(768.674)	5.140.225	518.541	4.890.092
Financial Derivative Assets	12.651.214	22.025.708	1.260.969	35.937.891
Financial Derivative Liabilities	13.419.888	16.885.483	742.428	31.047.799
Non-cash Loans	812.212	938.975	123.682	1.874.869
Prior Period - 31 December 2016				
Total Assets	3.514.009	8.739.366	402.483	12.655.858
Total Liabilities	3.439.833	9.415.266	1.065.968	13.921.067
Net on-Balance Sheet Position	74.176	(675.900)	(663.485)	(1.265.209)
Net off-Balance Sheet Position	(173.984)	488.176	655.357	969.549
Financial Derivative Assets	5.470.827	7.841.499	1.067.640	14.379.966
Financial Derivative Liabilities	5.644.811	7.353.323	412.283	13.410.417
Non-cash Loans	714.430	996.915	110.504	1.821.849

(*) As of 31 December 2017, total loans amount consists foreign indexed loans amounting to TL 1.131.477 (31 December 2016: TL 1.485.916) and there is no foreign currency factoring receivables (31 December 2016: None).

(**) As of 31 December 2017, other assets do not consist of prepaid expenses amounting to TL 432 (31 December 2016: 47 TL).

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IV. EXPLANATIONS ON CURRENCY RISK (Continued)

As of 31 December 2017 and 31 December 2016, if Bank's foreign currency position had depreciated by 10% against TL with all other variables held constant, the changes in profit before tax and equity mainly as a result of foreign exchange losses are disclosed as following:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	Income Statement	Equity (*)	Income Statement	Equity (*)
USD	29.735	29.735	(18.772)	(18.772)
Euro	(18.979)	(18.979)	(9.981)	(9.981)
Other	1.333	1.333	(813)	(813)
Total	12.089	12.089	(29.566)	(29.566)

(*) The effect of equity also includes the effect of income statement.

As of 31 December 2017 and 31 December 2016, as a result of 10% appreciation of TL currency against other foreign currencies with all other variables held constant, the changes in the assets and liabilities have occurred in accordance with the table above but effects will be reverse.

V. EXPLANATIONS ON INTEREST RATE RISK

There is a short term interest sensitivity gap at the balance sheet of the Bank due to a structural risk of the banking sector; obligation of funding of long-term assets with short-term deposits. Derivative financial instruments are used to mitigate possible interest rate risk of interest sensitive assets and liabilities. Interest rate futures and interest rate swap transactions are performed to reduce the balance sheet and off-balance sheet interest rate risk.

The Bank managed interest rate and prepayment risks of mortgages and other long-term loans with derivative financial instruments efficiently taking into consideration cost-benefit analysis and reduced the risk against the fluctuations in global and local markets.

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items (Based on repricing dates):

Current Period - 31 December 2017	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Non- Interest Bearing	Total
Assets							
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	2.720.612	-	-	-	-	1.182.843	3.903.455
Banks	333.628	-	-	-	-	10.305	343.933
Financial Assets at Fair Value Through Profit or Loss (Net)	154.548	257.648	250.355	263.907	14.755	5.420	946.633
Interbank Money Market Placements	1.794.965	-	-	-	-	-	1.794.965
Financial Assets Available-for-Sale (Net)	-	605.364	262.257	414.529	66.915	13.099	1.362.164
Loans (*)	6.949.929	1.530.381	2.442.178	3.635.034	773.511	275.784	15.606.817
Investments Held-to-Maturity (Net)	-	-	-	-	-	-	-
Other Assets	9.195	-	15	163.666	-	497.080	669.956
Total Assets	11.962.877	2.393.393	2.954.805	4.477.136	855.181	1.984.531	24.627.923
Liabilities							
Bank Deposits	1.451.801	-	-	-	-	57.602	1.509.403
Other Deposits	10.791.276	1.277.473	158.725	47	-	2.632.791	14.860.312
Funds from Interbank Money Market	-	-	-	-	-	-	-
Miscellaneous Payables	254.313	4.875	3.873	370	-	-	263.431
Issued Marketable Securities (Net)	-	-	-	-	-	-	-
Funds Borrowed	2.047.848	758.296	211.122	607.498	-	80.013	3.704.777
Other Liabilities (**)	157.482	185.466	222.611	664.916	-	3.059.525	4.290.000
Total Liabilities	14.702.720	2.226.110	596.331	1.272.831	-	5.829.931	24.627.923
Balance Sheet Long Position	-	167.283	2.358.474	3.204.305	855.181	-	6.585.243
Balance Sheet Short Position	(2.739.843)	-	-	-	-	(3.845.400)	(6.585.243)
Off Balance Sheet Long Position	18	-	34.049	-	-	-	34.067
Off Balance Sheet Short Position	-	(144.214)	-	(3.673)	-	-	(147.887)
Total Position	(2.739.825)	23.069	2.392.523	3.200.632	855.181	(3.845.400)	(113.820)

(*) Loans consist of factoring transactions amounting to TL 394.213 (31 December 2016 TL 476.308).

(**) Shareholders' equity is presented under "Other Liabilities" item in "Non- Interest Bearing".

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V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

Prior Period - 31 December 2016	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Non- Interest Bearing	Total
Assets							
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	1.233.919	-	-	-	-	535.001	1.768.920
Banks	767.006	-	-	-	-	152.881	919.887
Financial Assets at Fair Value Through Profit or Loss (Net)	142.037	276.297	345.609	201.784	5.638	8.407	979.772
Interbank Money Market Placements	4.372.998	-	-	-	-	-	4.372.998
Financial Assets Available-for-Sale (Net)	-	320.306	397.132	530.243	8.788	6.660	1.263.129
Loans (*)	6.113.996	690.428	2.251.159	4.262.436	863.406	449.628	14.631.053
Investments Held-to-Maturity (Net)	-	-	-	-	-	-	-
Other Assets	41.045	28.409	-	2.136	-	362.067	433.657
Total Assets	12.671.001	1.315.440	2.993.900	4.996.599	877.832	1.514.644	24.369.416
Liabilities							
Bank Deposits	44.488	-	-	-	-	123.171	167.659
Other Deposits	10.514.105	1.174.485	190.529	256	-	3.102.986	14.982.361
Funds from Interbank Money Market	531.938	-	-	-	-	-	531.938
Miscellaneous Payables	-	-	-	-	-	342.363	342.363
Issued Marketable Securities (Net)	-	-	-	-	-	-	-
Funds Borrowed	2.514.000	1.593.155	3.516	211.121	-	3.171	4.324.963
Other Liabilities (**)	78.125	142.145	269.401	785.884	546	2.744.031	4.020.132
Total Liabilities	13.682.656	2.909.785	463.446	997.261	546	6.315.722	24.369.416
Balance Sheet Long Position	-	-	2.530.454	3.999.338	877.286	-	7.407.078
Balance Sheet Short Position	(1.011.655)	(1.594.345)	-	-	-	(4.801.078)	(7.407.078)
Off Balance Sheet Long Position	107.330	190.020	68.378	-	-	-	365.728
Off Balance Sheet Short Position	-	-	-	(9.500)	-	-	(9.500)
Total Position	(904.325)	(1.404.325)	2.598.832	3.989.838	877.286	(4.801.078)	356.228

(*) Loans consist of factoring receivables amounting to TL 476.308.

(**) Shareholders' equity is presented under "Other Liabilities" item in "Non- Interest Bearing".

b. Effective average interest rates for monetary financial instruments:

Current Period – 31 December 2017	Euro	USD	Yen	TL
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	-	-	-	12,75
Banks	-	0,95	-	19,12
Financial Assets at Fair Value Through Profit or Loss (Net)	4,47	6,65	-	5,96
Interbank Money Market Placements	-	1,55	-	12,74
Financial Assets Available-for-Sale (Net)	-	-	-	8,44
Loans	3,78	4,61	-	12,39
Liabilities				
Bank Deposits	-	1,50	-	8,10
Other Deposits	1,41	2,49	2,27	11,31
Funds From Interbank Money Market	-	-	-	-
Funds Borrowed	-	4,58	-	14,01

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V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

Prior Period - 31 December 2016	Euro	USD	Yen	TL
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	-	0,75	-	3,31
Banks	-	1,07	-	-
Financial Assets at Fair Value Through Profit or Loss (Net)	5,16	7,21	-	6,38
Interbank Money Market Placements	-	0,81	-	-
Financial Assets Available-for-Sale (Net)	-	-	-	9,29
Loans	3,93	4,47	-	15,04
Liabilities				
Bank Deposits	-	-	-	3,94
Other Deposits	1,45	1,67	1,40	9,50
Funds From Interbank Money Market	-	-	-	8,14
Funds Borrowed	4,50	4,10	-	16,40

c. Interest rate risk on banking book:

- (i) Nature of interest rate risk resulted from banking book, major assumptions including also assumption on early repayment of loans and movements in deposits other than term deposits and frequency of measuring interest rate risk**

The interest rate risk resulted from 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 in the Official Gazette no.28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

In addition to, interest rate gap analysis on asset and liability items that are sensitive interest rate that to be behavioural approach with internal method, net interest margin stress test and economic value of capital analysis are performed and evaluated at ALCO and Market Risk Committee. That internal methods, balance sheet items such as prepayment risk of mortgage risk, demand deposit that not contain specific maturity in terms of interest rate risk, credit cards, overdraft account and free capital are assessed process of behavioural approach and analysed interest rate risk according to it.

Interest rate risk arising from banking book is managed with risk reduction according to determined internal limits and hedging transactions by Board of Directors.

- (ii) Economic value differences resulted from interest rate instabilities calculated according to Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Bank’s Banking Book as per Standard Shock Method**

31 December 2017	Shocks Applied (+/- x basis point)	Gains / Losses	Gains / Equity - Losses / Equity
Type of Currency			
1. TRY	500	(204.332)	(5,71)%
2. TRY	(400)	198.240	5,54%
3. EURO	200	(61.719)	(1,72)%
4. EURO	(200)	10.642	0,30%
5. USD	200	(12.644)	(0,35)%
6. USD	(200)	18.240	0,51%
Total (of negative shocks)		227.122	6,34%
Total (of positive shocks)		(278.695)	(7,78)%

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V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

31 December 2016	Shocks Applied (+/- x basis point)	Gains / Losses	Gains / Equity - Losses / Equity
Type of Currency			
1. TRY	500	(222.941)	(5,25)%
2. TRY	(400)	223.028	5,25%
3. EURO	200	(50.356)	(1,19)%
4. EURO	(200)	(4.681)	(0,11)%
5. USD	200	(55.985)	(1,32)%
6. USD	(200)	55.015	1,30%
Total (of negative shocks)		273.362	6,44%
Total (of positive shocks)		(329.282)	(7,75)%

VI. EXPLANATIONS ON POSITION RISK OF EQUITY SECURITIES IN BANKING BOOK

a. Position risk of equity securities in banking book

(i) Comparison of carrying, fair and market values of equity shares

The Bank’s equity securities which are not publicly traded are booked as their cost value, if calculation of fair value cannot be determined properly.

(ii) Realised gains/losses, unrealised gains/losses on revaluation surpluses from equity securities and amounts included in core and supplementary capitals

None.

VII. EXPLANATIONS ON LIQUIDITY RISK

Information about the liquidity risk management including factors such as risk capacity of the bank, responsibilities and the structure of liquidity risk management, reporting of the liquidity risk within the Bank and providing communication with Board of Directors and line of businesses in terms of liquidity risk strategy, policy and applications:

The Bank has adopted principle of funding the liquidity and funding management of the Bank with stable funding instruments. Funds required must be available even under stressed conditions particular to the Bank and the Market

The Bank’s short term liquidity is managed by the Balance Sheet Management which is associated to the treasury function and the management of liquidity and funding risks of the banking portfolio is conducted by Assets and Liabilities and Capital Management Unit (ALCM) operating under Finance department, within the framework of risk policies and risk appetite approved by Board of Directors. Board of Directors determines risk appetite and internal risk limits of liquidity. In terms of the approving risk appetite, inherent liquidity limits, and considering Bank’s strategy and market conditions, Assets and Liabilities Committee (ALCO) is the decision making body regarding balance sheet management, identification and efficiency of funding sources, and determination of potential risks. The Asset-Liability Management Committee is responsible for preparing middle and long term liquidity strategies.

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VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

Strategic funding plan forms up the primary basis of the liquidity and funding risk management, updated at least in annual basis and formed up within the scope of risk appetite. According to the strategic funding plan approved by ALCO, actions are considered in order to provide the most cost-efficient, diversified and stable funding resources in terms of maturity, currency and funding resource to monitor and evaluate balance sheet movements and projections and the current status of the balance sheet by ALCM.

In addition, current and planned liquidity positions of bank is tracked at tactical ALCO meetings with the participation of business representatives at least on weekly basis and business line representatives are informed if necessary actions are to be taken. The aim of these meetings is to ensure prevention of negative net cash flow of the bank liquidity and prevention exceeding limits by comparing the current situation regarding to the balance sheet structure of business line with the approved limit usage of strategic funding plans and liquidity.

Information regarding functioning of liquidity management and the extent of centralization in funding strategy amid the Bank and its subsidiaries:

All subsidiaries of the controlling shareholder of the Bank plan and manage their liquidity within the limits of their risk appetite and internal limits.

The information about the Bank’s funding strategy including policies on diversification of its sources and tenor of funding:

Liquidity and funding management of the Bank adopts funding illiquid assets with stable funding instruments and funds in the need of to be always available as a principle. Stable funding instruments consist of stable deposit and long term non-deposit debt instruments. Within this context, liquidity and funding management is primarily based on the stability of Banks’ deposit base and considers total stable deposits as primary measurement. Deposits of retail banking customers is the primary component of funding management because they are more stable and cost-efficient compared to other line of businesses. Moreover, other debt instruments with maturities of medium and long term are also used because of diversifying and balancing funding base in terms of maturity, currency, fund resource and cost; and because their average deposit maturity is less compared to the assets.

Information on liquidity management based on currency which consists of a minimum of 5% of the Bank’s total liabilities:

Almost all of Banks’ total liabilities are in TL, USD and EUR. Liabilities in TL are generally consists of deposits, repurchase agreements and Shareholder’s Equity. Liabilities in FC consists of deposits in FC and other debt instruments in FC.

Consolidated liquidity measurement of the Banks’ total liquidity and selected currencies for short and long terms is planned within the context of strategic funding plan. The FC and total internal risk limits approvals of Board of Directors is available.

Information on liquidity risk mitigation techniques:

Internal liquidity limits above legal limits and liquidity buffer is used in order to lower liquidity risk. Funding resources are diversified as much as possible by planning cash inflows and outflows within the context of strategic funding plan. Therefore, effective management of concentrations is ensured in terms of maturity, currency and funding resources. The Bank also uses derivative transactions in order to lower liquidity risks.

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VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

Explanation of the usage of stress test:

Along with the legal liquidity risk calculations and restrictions, in terms of liquidity management, stress tests and scenario analyses are performed in accordance with the international liquidity management policies of the HSBC. In these scenarios, liquidity crisis scenarios of the Bank and macro liquidity crisis scenarios are evaluated and triggering factors of liquidity risk and prewarning signals are tracked. Analyses and results of the liquidity risk are tracked in tactical ALCO meetings weekly and in ALCO-Market Risk Committees monthly.

General Information on liquidity emergency and contingency plans:

Liquidity Emergency and Contingency Plan is approved by the BoD and ALCO and renewed on yearly basis. The plan contains detailed analyses and information about the actions to be taken in crisis management and employees responsible for the process, liquidity Access resources, liquidity situation of the Bank, early warning indicators within graded liquidity crisis scenarios.

a. Liquidity coverage rate:

The change in matters that impact liquidity coverage rate and units that are used for the calculation of the ratio:

Liquidity coverage rate is calculated by dividing high quality liquid assets that Bank owns to net cash outflows with maturity of 1 month. Reserve requirements kept by CBRT, reverse repurchase agreements, securities that are not subject to repurchase/collateral held for providing liquidity, corporate and bank deposits that may cause high cash outflows, borrowings that are became due and receivables from banks form the most important components which affect the results of liquidity coverage rate due to the liquidity of the assets, having high volume in net cash outflows and having high rate of consideration. The ratio may fluctuate periodically due to reasons listed below;

- Changes in reserve requirements because of using FC reserve option in reserve requirement accounts kept by CBRT.
- Transfer of the short-term liquidity to Money markets instead of debt instruments issued by CBRT based on market conditions.
- Fluctuations of bank and corporate deposits that are highly considered in fund resources.
- Fluctuations that may occur due to the aging of borrowings.
- Less than 1 month remaining maturity of cash inflows/outflows resulted specifically from FC derivative transactions.

Explanation regarding the components of high quality liquid assets:

High quality liquid assets consists of cash, effective depot, cheques purchased, time and demand deposit by CBRT, reverse repurchase transactions and securities that are not subject to repurchase/collateral for providing liquidity.

Components density of fund resources in all funds:

The Bank’s founding sources are consisted of real person and retail deposit, corporate bank deposits, repurchase agreements and borrowings. Deposits that are used for funding consists 66% of total liabilities.

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VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

Information about cash outflows resulted from derivative transactions and transactions that are likely to be collateralized:

Cash outflows resulted from derivative transactions are taken into account of liquidity coverage rate calculation by considering TL and FC net cash flows with 30-days maturity. Net cash flows resulted from derivative transactions have minimal effect on total liquidity coverage rate. However, as a result of shifts in derivative volumes due to FC derivatives used in the management of cash flows and incoming maturities of derivative transactions, periodic fluctuations on FC liquidity coverage rate may occur.

Concentration limits of collaterals in terms of fund resources based on counterparty and products:

Within the context of strategic funding plan, cash inflows and outflows are planned and effective management of concentration of fund resources in terms of maturity, currency and fund resource is projected. In the context, customer-based deposit concentrations, limits and usages set up for the counterparties in borrowings and maturity-based distribution of non-deposit borrowings are tracked and reported to ALCO every month periodically.

Current Period – 31.12.2017	Total value to which the consideration ratio is not applied (*)		Total value to which the consideration ratio is applied (*)	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			3.238.898	2.117.456
Cash Outflows				
Real person and retail deposits	10.735.706	7.269.620	921.109	665.457
Stable deposits	3.075.677	1.230.109	153.784	61.505
Less stable deposits	7.660.029	6.039.511	767.325	603.952
Unsecured debts other than real person and retail deposits	4.145.658	5.164.060	2.090.229	2.283.588
Operational deposits	151.855	-	7.593	-
Non-operational deposits	494.431	300.875	355.952	194.725
Other unsecured debts	3.499.372	4.863.185	1.726.684	2.088.863
Secured debts	-	-	-	-
Other cash outflows	588.605	2.246.389	588.605	2.814.776
Derivative liabilities and collateral completion liabilities	588.605	2.246.389	588.605	2.814.776
Debts related to the structured financial products	-	-	-	-
Payment commitments for debts to financial markets and other off-the-balance sheet liabilities	-	-	-	-
Other off-the-balance sheet and revocable (without contingency) liabilities and other contractual liabilities	6.265.265	356.319	664.462	117.094
Other irrevocable or revocable (based on conditions) off-the balance sheet debts	-	-	-	-
TOTAL CASH OUTFLOWS			4.264.405	5.880.914
Cash inflows				
Secured receivables	-	-	-	-
Unsecured receivables	5.881.016	929.818	4.256.637	831.589
Other cash inflows	192.152	7.848.991	192.151	7.848.990
TOTAL CASH INFLOWS	6.073.168	8.778.809	4.448.788	8.680.579
TOTAL HIGH QUALITY LIQUID ASSETS INVENTORY			3.238.898	2.117.456
TOTAL NET CASH OUTFLOWS			1.066.101	1.470.229
LIQUIDITY COVERAGE RATIO (%)			303,81	144,02

(*) Simple arithmetic average for last 3 months is calculated for items of the table which are calculated by weekly simple arithmetic averages.

Table below represents lowest, highest and average liquidity coverage rates for the last three month period of 2017.

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VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

	Prior Period - 31.12.2016	
	TL+FC	FC
Highest (%)	318,78	435,68
Date	12.12.2016	05.12.2016
Lowest (%)	219,80	115,68
Date	31.10.2016	07.11.2016
Average (%)	356,59	233,28

b. Breakdown of assets and liabilities according to their outstanding maturities:

Current Period - 31 December 2017	Demand	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Unallocated	Total
Assets								
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the CBRT	1.182.843	2.720.612	-	-	-	-	-	3.903.455
Banks	10.305	333.628	-	-	-	-	-	343.933
Financial Assets at Fair Value through Profit or Loss (Net)	5.420	118.602	62.418	206.453	510.407	43.333	-	946.633
Interbank Money Market Placements	-	1.794.965	-	-	-	-	-	1.794.965
Financial Assets Available-for-Sale (Net)	-	-	605.364	262.257	414.529	66.915	13.099	1.362.164
Loans (*)	-	5.169.502	3.113.035	2.623.704	3.648.228	776.566	275.782	15.606.817
Investments Held-to-maturity (Net)	-	-	-	-	-	-	-	-
Other Assets (**)	-	9.195	-	15	163.666	-	497.080	669.956
Total Assets	1.198.568	10.146.504	3.780.817	3.092.429	4.736.830	886.814	785.961	24.627.923
Liabilities								
Bank Deposits	57.602	1.451.801	-	-	-	-	-	1.509.403
Other Deposits	2.632.791	10.791.276	1.277.473	158.725	47	-	-	14.860.312
Funds from Interbank Money Market	-	-	-	-	-	-	-	-
Miscellaneous Payables	-	254.313	4.875	3.873	370	-	-	263.431
Issued Marketable Securities (Net)	-	-	-	-	-	-	-	-
Funds Borrowed	80.013	-	284.339	211.123	2.029.252	1.100.050	-	3.704.777
Other Liabilities (***)	-	125.294	139.436	422.292	526.573	16.880	3.059.525	4.290.000
Total Liabilities	2.770.406	12.622.684	1.706.123	796.013	2.556.242	1.116.930	3.059.525	24.627.923
Net Liquidity Excess/Gap	(1.571.838)	(2.476.180)	2.074.694	2.296.416	2.180.588	(230.116)	(2.273.564)	-
Net Off-Balance Sheet Position	-	8.410	(143.013)	10.717	(4.657)	-	-	(128.543)
Receivables from Derivative Financial Instruments								
	-	19.664.075	6.535.673	5.460.951	4.252.471	-	-	35.913.170
Debts from Derivative Financial Instruments								
	-	19.655.665	6.678.686	5.450.234	4.257.128	-	-	36.041.713
Non-Cash Loans	993.987	144.032	308.679	834.106	510.889	5.614	-	2.797.307
Prior Period - 31 December 2016								
Total Assets	479.515	11.154.590	2.927.485	3.015.018	5.117.784	907.428	767.596	24.369.416
Total Liabilities	3.229.328	11.375.562	1.366.154	820.965	2.823.727	2.009.649	2.744.031	24.369.416
Net Liquidity Gap	(2.749.813)	(220.972)	1.561.331	2.194.053	2.294.057	(1.102.221)	(1.976.435)	-
Net Off-Balance Sheet Position	-	46.809	31.092	171.498	160.308	-	-	409.707
Receivables from Derivative Financial Instruments								
	-	5.384.002	3.654.131	6.126.558	3.550.187	-	-	18.714.878
Debts from Derivative Financial Instruments								
	-	5.337.193	3.623.039	5.955.060	3.389.879	-	-	18.305.171
Non-Cash Loans	926.860	301.508	540.881	428.034	438.806	14.482	-	2.650.571

(*) Loans include the factoring receivables amounting to TL 394.213 (31 December 2016: TL 476.308).

(**) Assets that are necessary for banking activities and that cannot be liquidated in the short-term, such as fixed and intangible assets, investments, subsidiaries, stationery, pre-paid expenses and non-performing loans, are classified in this column.

(***) Shareholders' Equity is presented under "Other Liabilities" item in the "Unallocated" column.

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VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

c. Breakdown of liabilities according to their remaining contractual maturities

Current Period - 31 December 2017	Demand	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Total
Bank Deposits	57.602	1.485.350	-	-	-	-	1.542.952
Other Deposits	2.632.791	10.848.234	1.284.161	161.704	48	-	14.926.938
Funds Provided Under Repurchase Agreements	-	-	-	-	-	-	-
Borrowings	80.013	-	285.462	200.123	2.188.835	1.563.603	4.318.036
Total	2.770.406	12.333.584	1.569.623	361.827	2.188.883	1.563.603	20.787.926
Prior Period - 31 December 2016	Demand	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Total
Bank Deposits	123.171	44.560	-	-	-	-	167.731
Other Deposits	3.102.986	10.574.882	1.182.043	193.751	271	-	15.053.933
Funds Provided Under Repurchase Agreements	-	532.398	-	-	-	-	532.398
Borrowings	3.171	-	5.179	511	2.449.495	2.879.991	5.338.347
Total	3.229.328	11.151.840	1.187.222	194.262	2.449.766	2.879.991	21.092.409

d. Information on securitisation positions:

None.

e. Breakdown of derivative instruments according to their remaining contractual maturities:

Current Period - 31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Foreign exchange derivatives:						
- Inflow	19.780.620	6.597.671	5.655.714	4.493.180	-	36.527.185
- Outflow	19.774.450	6.817.835	5.643.082	4.484.962	-	36.720.329
Interest rate derivatives:						
- Inflow	-	320	368	41.942	27.974	70.604
- Outflow	-	287	350	35.317	16.880	52.834
Total Inflow	19.780.620	6.597.991	5.656.082	4.535.122	27.974	36.597.789
Total Outflow	19.774.450	6.818.122	5.643.432	4.520.279	16.880	36.773.163
Prior Period - 31 December 2016	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Foreign exchange derivatives:						
- Inflow	5.473.843	3.754.913	6.465.219	3.913.353	-	19.607.328
- Outflow	5.394.478	3.743.249	6.178.389	3.586.016	-	18.902.132
Interest rate derivatives:						
- Inflow	53	753	2.101	41.437	34.450	78.794
- Outflow	-	526	2.104	36.263	25.695	64.588
Total Inflow	5.473.896	3.755.666	6.467.320	3.954.790	34.450	19.686.122
Total Outflow	5.394.478	3.743.775	6.180.493	3.622.279	25.695	18.966.720

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VIII. EXPLANATIONS ON LEVERAGE RATIO

Below is the table on leverage ratio according to the Guideline of the Measuring and Evaluating Banks’ Leverage Rate, published in the Official Gazette no.28812 and dated 5 November 2013.

	Current Period 31.12.2017 (*)	Prior Period 31.12.2016 (*)
Assets On the Balance Sheet		
Assets on the balance sheet (excluding derivative financial instruments and loan derivatives, including collaterals)	25.491.205	23.927.346
(Assets deducted from core capital)	(160.606)	(133.576)
Total risk amount for assets on the balance sheet	25.330.599	23.793.770
Derivative Financial Instruments and Loan Derivatives		
Renewal cost of derivative financial instruments and loan derivatives	930.529	875.210
Potential credit risk amount of derivative financial instruments and loan derivatives	485.326	380.549
Total risk amount of derivative financial instruments and loan derivatives	1.415.855	1.255.759
Financing Transactions With Securities Or Goods Warranties		
Risk amount of financial transactions with securities or goods warranties (excluding those in the balance sheet)	66.530	69.590
Risk amount arising from intermediated transactions	-	-
Total risk amount of financing transactions with securities or goods warranties	66.530	69.590
Off-the-Balance Sheet Transactions		
Gross nominal amount of the off-the-balance sheet transactions	17.768.672	24.613.308
Adjustment amount arising from multiplying by the credit conversion rate	-	-
Total risk amount for off-the-balance sheet transactions	17.768.672	24.613.308
Capital and Total Risk		
Core capital	2.278.736	2.238.933
Total risk amount	44.581.656	49.732.427
Leverage Ratio		
Leverage Ratio (%)	5,11	4,50

(*) Table represents three month average amounts.

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IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

a. Explanations on calculation of financial assets and liabilities at their fair values:

The expected fair value of the demand deposits represents the amount to be paid upon request. The fair values of the overnight deposits and floating rate placements represent the carrying value. The expected fair value of the fixed rate deposits is determined by calculating the discounted cash flow using the market interest rates of similar liabilities and loans.

The estimated fair value of loans and borrowing with bank placements is determined by calculating the discounted cash flow using the current market rates for the loans with fixed rate. For the loans with floating interest rates, it is assumed that carrying value reflects the fair value.

Available-for-sale financial assets at fair value of shares of the bank, which they are traded in the market at the reporting date, calculated based on the determined closing prices. The fair value of the shares that not traded in the market is determined by its cost. Government debt securities classified as available-for-sale financial assets have been measured by fair value that are used price that on the market. Thus, there is no difference between their fair value and carrying value.

	Carrying Value		Fair Value	
	Current Period 31 December 2017	Prior Period 31 December 2016	Current Period 31 December 2017	Current Period 31 December 2016
Financial Assets	19.107.879	21.187.067	19.139.490	21.098.660
Interbank Money Market Placements	1.794.965	4.372.998	1.794.965	4.372.998
Banks	343.933	919.887	343.933	919.887
Financial Assets Available-for-Sale (Net)	1.362.164	1.263.129	1.362.164	1.263.129
Investments Held-to-Maturity (Net)	-	-	-	-
Loans (*)	15.606.817	14.631.053	15.638.428	14.542.646
Financial Liabilities	20.337.923	19.817.346	20.513.370	19.860.895
Bank Deposits	1.509.403	167.719	1.509.403	167.719
Other Deposits	14.860.312	14.982.301	14.892.656	15.009.856
Borrowings	3.704.777	4.324.963	3.847.880	4.340.957
Securities Issued	-	-	-	-
Miscellaneous Payables	263.431	342.363	263.431	342.363

(*) Includes the factoring receivables amounting to TL 394.213 (31 December 2016: TL 476.308).

b. Explanations on fair value hierarchy:

Aforesaid classifications related to fair values are determined as follows;

- 1st level, amounts are valued by quoted market prices for assets and liabilities,
- 2nd level, directly or indirectly observable data for the assets and liabilities, other than quoted prices in the 1st level,
- 3rd level, data are not observable regarding to assets and liabilities.

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**IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT
FAIR VALUE (Continued)**

Current Period - 31 December 2017	1st Level	2nd Level	3rd Level	Total
Financial Assets at Fair Value Through Profit or Loss	253.014	693.619	-	946.633
- Government debt securities	253.014	-	-	253.014
- Share certificates	-	-	-	-
- Trading derivative financial assets	-	688.199	-	688.199
- Other securities	-	5.420	-	5.420
Hedging Derivative Financial Assets	-	-	-	-
Available for Sale Financial Assets	1.349.065	-	-	1.349.065
- Share certificates (*)	-	-	-	-
- Government debt securities	1.349.065	-	-	1.349.065
- Other marketable securities	-	-	-	-
Total Assets	1.602.079	693.619	-	2.295.698
- Trading Derivative Financial Liabilities	-	739.179	-	739.179
Hedging Derivative Financial Liabilities	-	-	-	-
Total Liabilities	-	739.179	-	739.179

(*) Unquoted share certificates amounting to TL 13.099 measured at cost in accordance with TAS 39, are not included.

Prior Period - 31 December 2016	1st Level	2nd Level	3rd Level	Total
Financial Assets at Fair Value Through Profit or Loss	63.557	916.215	-	979.772
- Government debt securities	63.557	-	-	63.557
- Share certificates	-	-	-	-
- Trading derivative financial assets	-	907.808	-	907.808
- Other securities	-	8.407	-	8.407
Hedging Derivative Financial Assets	-	69.454	-	69.454
Available for Sale Financial Assets	1.256.469	-	-	1.256.469
- Share Certificates (*)	-	-	-	-
- Government debt securities	1.256.469	-	-	1.256.469
- Other marketable securities	-	-	-	-
Total Assets	1.320.026	985.669	-	2.305.695
- Trading Derivative Financial Liabilities	-	667.258	-	667.258
Hedging Derivative Financial Liabilities	-	-	-	-
Total Liabilities	-	667.258	-	667.258

(*) Unquoted share certificates amounting to TL 6.660 measured at cost in accordance with TAS 39, are not included.

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**X. EXPLANATIONS REGARDING THE ACTIVITIES CARRIED OUT ON BEHALF AND
ACCOUNT OF OTHER PARTIES**

**a. Transaction, Custody, Management and Consultancy Services of the Bank on behalf of
Third Parties:**

The Bank acts as an intermediary for purchases and sales of government securities on behalf and account of other persons, and provides custody services. The Bank, within special customer service, provides portfolio management and consultancy services to its customers.

**b. Transactions with other financial institutions under fiduciary transaction agreements and
financial services rendered to other financial institutions under the scope of fiduciary
transactions and the effects of such services to the financial position of the Bank:**

None.

XI. EXPLANATIONS ON RISK MANAGEMENT

Notes and explanations in this section have been prepared in accordance with the Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks that have been published in Official Gazette no. 29511 on 23 October 2015 and became effective as of 31 March 2016. According to Communiqué have to be presented on a quarterly basis. Due to usage of standard approach for the calculation of capital adequacy by the Bank, the following required tables have not been presented on 31 December 2017:

- RWA flow statements of CCR exposures under the Internal Model Method (IMM)
- RWA flow statements of credit risk exposures under IRB
- RWA flow statements of market risk exposures under an IMA

a. Explanations on Risk Management and Risk Weighted Amount:

1. Bank’s risk management approach

Ensuring risk management and efficiency is the Bank Board of Directors’ responsibility. The Board of Directors writes and approves policies concerning risk management activities, periodically examines their implementation, and takes the necessary measures related to setting up and maintaining a risk management system within the body of the Bank in line with the local regulations.

The Board of Directors includes the risk management system in the management structure of the Bank in line with the regulations and procedures required by legislation. It also sets principles and procedures related to the system’s administrative structure, recruiting personnel, and ensuring continuity. The Board of Directors examines the Bank’s Executive Management Unit and Risk Management Unit evaluations of the risk management process, evaluates the reliability and adequacy of the risk management models, and takes the necessary actions. The Board of Directors determines and documents, in writing, the strategies, policies, and implementation methods for department systems, ensures effective implementation and continued use of the methods, ensures the coordination, and allocates the necessary resources. The Board of Directors is informed about the risks the Bank is subject to, as well as the methods for measuring and managing these risks. It determines in writing the policies and strategies concerning risk management, the level of risk the Bank can accept, methods of implementation generally and for each risk type, and identifies maximum risk limits for departments, managers, and staff. It approves the policies concerning taking, monitoring, managing, and reporting the risks that will drastically affect income and expenses by determining the risk appetite of the bank, approves changes in these policies, and supervises their implementation.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

The Board of Directors ensures executive management provides it with timely and reliable reports regarding the risks the bank faces, determines data management policies, identifies processes and establishes control mechanisms to ensure the systems perform effectively, and ensures the implementation of these processes.

The Board of Directors is liable to ensure the Internal Capital Adequacy Evaluation Process is set and implemented, and to fulfil the other responsibilities laid out in regulations. The Audit Committee, Risk Management Committee, Asset-Liability Management Committee, and other related committees carry out the supervision responsibility of the Board of Directors to ensure perpetual supervision.

The Audit Committee has been assigned by the Board of Directors to be the Internal Systems Supervisor for all departments with regard to internal systems. The Audit Committee checks the effectiveness and adequacy of the internal systems of the Bank on behalf of the Board of Directors, supervises how these internal systems, accounting systems, and reporting systems work within the framework of the Law and regulations, ensures the integrity of the generated data, and does the necessary pre-evaluation for the Board of Directors to enable them to choose independent audit companies and rating, valuation, and support service organizations. Moreover, it regularly monitors the operations of organizations that the Board of Directors chooses and signs contracts with, ensuring continuity and coordination of the internal audit operations of the partnerships subject to consolidation in line with legal regulations, and sets up communication channels that ensure internal systems staff can directly access them. The Audit Committee also recommends managers for these units to the Board of Directors, provides opinions when relieving these managers of duty, hears and evaluates the opinions and recommendations of executive management concerning internal systems, gives recommendations on the qualities required for personnel who will work in internal systems units, and evaluates the education levels and adequacy of the internal systems manager and personnel. It is in charge of and responsible for assessing the availability of the necessary equipment and methods to detect, evaluate, monitor, and control the risks the Bank carries, as well as for fulfilling other liabilities mentioned in regulations. The Audit Committee is responsible for setting an audit and control process that will ensure the adequacy and correctness of the Internal Capital Adequacy Evaluation Process and for monitoring the internal validation of the risk measurement methodology the Bank uses to assess the adequacy of the economic and/or legal capital. If the Bank does not have the expertise to validate the internal model, the Audit Committee approves and monitors support from an expert organization.

The Risk Management Committee is responsible for monitoring and managing all Bank risk. It focuses mainly on risk policies, risk appetite, and risk concentration. The main focus of the committee is to evaluate changes in the operations of the lines of business and in markets where the lines of business operate, to analyse the effects of risk, and to handle these risks related to the future. The committee is responsible for:

- providing instructions and solving problems concerning risk policies and risk management,
- evaluating the main potential and current risks in the changing business atmosphere and political environment,
- tracking and checking the management of important risks,
- ensuring an appropriate risk culture is in place.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

The Asset-Liability Committee’s main responsibilities are:

- providing continuous guidance to set up a perpetually developing structure in line with estimated risk parameters and the Bank’s performance objectives,
- monitoring asset-liability and capital management risk and determining its effects,
- providing a forum where matters concerning asset-liability management can be discussed,
- providing opportunities for teamwork between various lines of work,
- finalizing inter-unit matters such as transfer pricing and effective distribution of resources,
- reviewing fund sources and fund utilization areas,
- monitoring capital adequacy, ensuring capital management within legal and internal limits, and reviewing the Internal Capital Adequacy Evaluation Process and documents,
- determining the most likely scenarios in terms of asset-liability planning by monitoring external banking factors and reviewing emergency plans, and
- evaluating alternate scenarios including interest, pricing, and portfolio structure, and reviewing asset-liability and term structure distribution.

These committees are supported by sub-committees such as the Tactical Asset-Liability Committee, the Market Risk Committee, the Stress Test Observation Committee, and the Model Observation Committee.

The Risk Management Unit is made up of a unit manager, working independently of operational units, and adequate staff. Risk Management Unit works connected with Audit Committee (As of 16 February 2017, Risk Management Unit began reporting directly to the Audit Committee).

The Risk Management Unit is responsible for risk management operations, for which the framework is laid out in the guidelines published by the Board and other legislation, and specifically for ensuring good practices related to banking law, the Regulation on Internal Systems of Banks and the Internal Capital Adequacy Evaluation Process, the Capital Markets Law. The main duty of the Risk Management Unit is defining, evaluating, monitoring, reviewing, and reporting risk. The Risk Management Unit provides the necessary training and advisory services to all lines of work to increase risk management awareness and ensure effective implementation of the risk management framework throughout the bank. It reviews the adequacy of risk control evaluation efforts for all lines of work. It ensures that key indicators are reviewed to monitor the risk levels of high risk points and that risk-lowering action plans are prepared and tracked. It helps analyse losses and sets up the necessary monitoring and tracking mechanisms for lines of work to complete the required corrective actions on time. It provides opinions on new products and changes to current products and evaluates the effectiveness of the risk management for new products. It analyses risk control evaluation results, outcomes of actions, possible losses, and operational losses, and shares the related reports with the Risk Management Committee. The Risk Management Unit works in coordination with the Internal Audit Unit, responsible for evaluating audit during operational risk management, the Loan and Risk Unit, which has its own risk responsibility, and the Financial Control-Asset-Liability Unit and the Capital Management Unit, which are responsible for market risks.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Stress Tests

The Risk Management Unit and other relevant units carry out and report on stress tests. Stress test results are regularly reported to the Stress Test Observation Committee, the Bank’s executive management, and the relevant top management by the Risk Management Unit and relevant units. Within the scope of stress tests, the Bank regularly applies sensitivity analyses and scenario analyses which cover market risk, exchange risk, liquidity risk, counterparty credit risk, concentration risk, country risk, operational risk, and interest rate risk for banking accounts. When necessary, additional stress tests can be carried out depending on market and economy conditions, portfolio changes, and legislation changes. Also, holistic stress tests are carried out for use in the Internal Capital Adequacy Evaluation Process.

2. Overview of Risk Weighted Amounts:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period 31 December 2017	Prior Period 31 December 2016	Current Period 31 December 2017
Credit risk (excluding counterparty credit risk) (CCR)	15.828.491	15.911.886	1.266.279
Standardised approach (SA)	15.828.491	15.911.886	1.266.279
Internal rating-based (IRB) approach	-	-	-
Counterparty credit risk	984.992	919.077	78.799
Standardised approach for counterparty credit risk (SA-CCR)	984.992	919.077	78.799
Internal model method (IMM)	-	-	-
Equity position in banking book under basic risk weighting or internal rating-based	-	-	-
Equity investments in funds – look-through approach	-	-	-
Equity investments in funds – mandate-based approach	-	-	-
Equity investments in funds – 1250% risk weighting approach	-	-	-
Settlement risk	-	-	-
Securitisation exposures in banking book	-	-	-
IRB ratings-based approach (RBA)	-	-	-
IRB supervisory formula approach (SFA)	-	-	-
SA/simplified supervisory formula approach (SSFA)	-	-	-
Market risk	579.350	739.075	46.348
Standardised approach (SA)	579.350	739.075	46.348
Internal model approaches (IMM)	-	-	-
Operational risk	3.000.097	3.262.352	240.008
Basic indicator approach	3.000.097	3.262.352	240.008
Standardised approach	-	-	-
Advanced measurement approach	-	-	-
Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
TOTAL	20.392.930	20.832.390	1.631.434

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

b. Linkages between financial statements and risk amounts

1. Differences and matching between accounting consolidation and legal consolidation

Current Period 31 December 2017	Carrying Values in Financial Statements Prepared as per TAS (*)	Carrying values of items in accordance with TAS			
		Subject to Credit Risk	Subject to Counterparty Credit Risk	Subject to Market Risk	Not Subject to Requirements or Subject to Deduction from Capital
Assets					
Cash and balances with the CBRT	3.903.455	3.903.455	-	-	-
Financial assets held for trading	946.633	-	688.199	946.633	-
Financial assets at fair value through profit or loss	-	-	-	-	-
Banks	343.933	343.933	-	-	-
Interbank Money market placements	1.794.965	-	1.794.965	-	-
Financial assets available for sale (net)	1.362.164	1.362.164	-	-	-
Loans and receivables	15.212.604	15.210.080	-	-	2.524
Factoring receivables	394.213	394.213	-	-	-
Investments held to maturity (net)	-	-	-	-	-
Associates (net)	-	-	-	-	-
Subsidiaries (net)	34.973	34.973	-	-	-
Joint ventures (net)	-	-	-	-	-
Lease receivables	-	-	-	-	-
Derivative financial assets held for risk management (net)	-	-	-	-	-
Tangible assets (net)	82.671	82.671	-	-	-
Intangible assets (net)	147.758	-	-	-	147.758
Investment property (net)	-	-	-	-	-
Tax asset	163.605	163.605	-	-	-
Assets held for sale and assets of discontinued operations (net)	1.690	1.690	-	-	-
Other assets	239.259	239.259	-	-	-
Total Assets	24.627.923	21.736.043	2.483.164	946.633	150.282
Liabilities					
Deposits	16.369.715	-	-	-	16.369.715
Derivative financial liabilities held for trading	739.179	-	739.179	739.179	739.179
Funds borrowed	2.604.727	-	-	-	2.604.727
Interbank money markets	-	-	-	-	-
Securities issued	-	-	-	-	-
Funds	-	-	-	-	-
Miscellaneous payables	263.431	-	-	-	263.431
Other external fundings payable	262.202	-	-	-	262.202
Factoring payables	-	-	-	-	-
Lease payables	-	-	-	-	-
Derivative financial liabilities held for risk management (net)	-	-	-	-	-
Provisions	681.073	-	-	-	681.073
Tax liability	42.466	-	-	-	42.466
Liabilities held for sale and liabilities of discontinued operations (net)	-	-	-	-	-
Subordinated debt	1.100.050	-	-	-	1.100.050
Shareholders' Equity	2.565.080	-	-	-	2.565.080
Total Liabilities	24.627.923	-	739.179	739.179	24.627.923

(*) Amounts represent unconsolidated financial statements of the Bank.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Prior Period 31 December 2016	Carrying Values in Financial Statements Prepared as per TAS (*)	Carrying values of items in accordance with TAS			
		Subject to Credit Risk	Subject to Counterparty Credit Risk	Subject to Market Risk	Not Subject to Requirements or Subject to Deduction from Capital
Assets					
Cash and balances with the CBRT	1.768.920	1.768.920	-	-	-
Financial assets held for trading	979.772	-	907.808	979.772	-
Financial assets at fair value through profit or loss	-	-	-	-	-
Banks	919.887	919.887	-	-	-
Interbank Money market placements	4.372.998	-	4.372.998	-	-
Financial assets available for sale (net)	1.263.129	1.263.129	-	-	-
Loans and receivables	14.154.745	14.144.782	-	-	9.963
Factoring receivables	476.308	476.308	-	-	-
Investments held to maturity (net)	-	-	-	-	-
Associates (net)	-	-	-	-	-
Subsidiaries (net)	35.023	35.023	-	-	-
Joint ventures (net)	-	-	-	-	-
Lease receivables	-	-	-	-	-
Derivative financial assets held for risk management (net)	69.454	-	69.454	-	-
Tangible assets (net)	81.598	81.598	-	-	-
Intangible assets (net)	127.701	2.132	-	-	125.569
Investment property (net)	-	-	-	-	-
Tax asset	3.743	3.743	-	-	-
Assets held for sale and assets of discontinued operations (net)	2.742	2.742	-	-	-
Other assets	113.396	113.396	-	-	-
Total Assets	24.369.416	18.811.660	5.350.260	979.772	135.532
Liabilities					
Deposits	15.150.020	-	-	-	15.150.020
Derivative financial liabilities held for trading	667.258	-	667.258	667.258	667.258
Funds borrowed	2.341.009	-	-	-	2.341.009
Interbank money markets	531.938	-	531.938	-	531.938
Securities issued	-	-	-	-	-
Funds	-	-	-	-	-
Miscellaneous payables	342.363	-	-	-	342.363
Other external fundings payable	257.407	-	-	-	257.407
Factoring payables	-	-	-	-	-
Lease payables	-	-	-	-	-
Derivative financial liabilities held for risk management (net)	-	-	-	-	-
Provisions	775.125	-	-	-	775.125
Tax liability	43.317	-	-	-	43.317
Liabilities held for sale and liabilities of discontinued operations (net)	-	-	-	-	-
Subordinated debt	1.983.954	-	-	-	1.983.954
Shareholders' Equity	2.277.025	-	-	-	2.277.025
Total Liabilities	24.369.416	-	1.199.196	667.258	24.369.416

(*) Amounts represent unconsolidated financial statements of the Bank.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Current Period 31 December 2017	Total	Items subject to credit risk framework	Items subject to counterparty credit risk framework	Items subject to market risk framework
Asset carrying value amount under scope of regulatory consolidation	24.627.923	21.736.043	2.483.164	946.633
Liabilities carrying value amount under regulatory scope of consolidation	-	-	739.179	(739.179)
Total net amount under regulatory scope of consolidation	24.627.923	21.736.043	3.222.343	207.454
Off-balance sheet amounts	9.300.326	7.957.094	-	-
Differences in valuations	-	-	-	-
Differences due to different netting rules, other than those already included in row 2	-	-	-	-
Differences due to consideration of provisions	-	-	-	-
Differences due to applications of BRSA	-	(5.898.344)	(1.920.826)	371.896
Differences due to risk reduction	-	(134.371)	-	-
Credit valuation adjustment	-	-	228.891	-
Risk Amounts	-	23.660.422	1.530.408	579.350

Prior Period 31 December 2016	Total	Items subject to credit risk framework	Items subject to counterparty credit risk framework	Items subject to market risk framework
Asset carrying value amount under scope of regulatory consolidation	24.233.885	18.811.660	5.350.260	979.772
Liabilities carrying value amount under regulatory scope of consolidation	532.113	-	1.199.196	(667.258)
Total net amount under regulatory scope of consolidation	24.765.998	18.811.660	6.549.456	312.514
Off-balance sheet amounts	10.715.723	9.170.878	-	-
Differences in valuations	-	-	-	-
Differences due to different netting rules, other than those already included in row 2	-	-	-	-
Differences due to consideration of provisions	-	-	-	-
Differences due to applications of BRSA	-	(7.066.477)	(5.020.246)	426.561
Differences due to risk reduction	-	(226.222)	(13.482)	-
Credit valuation adjustment	-	-	240.823	-
Risk Amounts	-	20.689.839	1.756.551	739.075

3. Explanations of differences between accounting and regulatory exposure amounts in accordance with TAS

a) Differences between exposure amounts and amounts valued in accordance with TAS:

There is no difference between amounts valued in accordance with TAS reported in the financial statements and amounts valued in accordance with TAS within the scope of the legal consolidation process.

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Fair value calculations the Bank makes for financial instruments are evaluated either at market value or using a model value based on product types. Valuation is carried out using “fair value measurement” in accordance with the valuation principles stated in the regulations appendix of the Bank’s Capital Adequacy Measurement and Assessment. While the Bank benefits from market prices for bonds, future contracts traded at the organised markets, it uses platforms producing model values for derivative transactions usually traded in over-the-counter markets. Valuations based on market or model value are made daily, and changes occurring in the market can be reflected to the Bank’s financials daily.

Credit value adjustments (CVA) are based on the current market value of credit risk arising from not meeting one of the liabilities in the agreement the Bank made with a counterparty and are included in the legal accounts, taking into account the all counterparties’ credit risks.

- b) The following are explanations of the checks and systems which ensure the prudence and security of the Bank’s valuation estimations as per the prudential valuation principles in Appendix-3 of the Regulations Related to Bank Capital Adequacy Measurement and Evaluation:

Financial instruments accounted for at fair value and which can be traded in an active market are valued based on market price. The accuracy of the market price used is periodically tracked. Fair valuation of financial instruments for which there is no active market is carried out in line with TAS 39. Derivative financial instruments are evaluated using a reduced cash flow model using market data. When valuing some financial instruments, valuations made by third parties and generally accepted valuation models are also used. The accuracy and independence of data used in valuations are periodically checked. In addition, detailed control processes exist, which enable the analysis of current market values of financial instruments and the profit/loss effect of daily transactions. Generally, systems are used and manual adjustments are avoided to ensure estimations related to valuations are prudent and reliable. In addition to existing controls, personnel carrying out purchase and sale transactions do not have any effect on valuation through market value.

c. Credit risk explanations:

1. General qualitative information about credit risk:

Risk limits are defined by Board of Directors in such manner that covers all possible important risk components, in accordance with the Bank’s operations and the size and complexity of products and services. Care is taken to ensure that the risk limits are in line with market expectations and reflect the Bank’s risk appetite and Bank’s strategies. The credit policies are established in consistence with risk limits. Credit rating models are used in loan allocation processes in accordance with the risk appetite, credit policies and targets of the Bank. Rating all credit customers is essential for the Bank. Credit ratings are used as the main factor in determining target segments, authority levels, prices, limits and collateralization levels in loan portfolios.

Application models are used during initial loan underwriting and behavioral models are used for customers whose previous credit performance could be monitored. Behavioral models are mainly used in the credit monitoring process and in the evaluation process of portfolio risk. In order to ensure timely and complete fulfillment of all obligations arising from the loan, it is essential to obtain adequate collateral from the customers. The main purpose of collateralization of any loan is to minimize the credit, foreign exchange and maturity risk. In this context, the minimum margin is determined by considering the quality of the collateral and collection expectancy in case of default and it is ensured that appropriate collateral is obtained for the loan type.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Credit risk is encountered when the counterparty is unable to fulfill its obligations defined with the agreement. All credit risk bearing banking products are managed with prudent credit policies and procedures in the Bank. The credit quality of the counterparty is evaluated with an internal rating score in all credit transactions. In order to monitor the credit risk, internal limit are determined on the basis of sector, customer, credit type and customer segment. Credit risk management is a process in which credit risks are assessed and monitored in a consistent manner, besides all credit portfolios are included on a consolidated basis. During the process of credit risk management, the Risk Management Department conducts measurement, monitoring and reporting activities of the credit risk using statistical models. In addition to the credit risk-related risk limits, various concentrations in the loan portfolio are also analyzed. It is assured to act within the policy of allocation, monitoring, Limit Follow-up and management, by establishing policy regarding to Country risk and concentration risk management. Cost of loan and collections of non-performing loans are monitored periodically. In addition, stress testing and scenario analysis studies are carried out on the loan portfolio. Assessment of the internal systems established to encompass all branches and departments and related entities are among the highest priorities of the Board of Directors to ensure the continuity of its operations, competencies and activities.

2. Credit Quality of Assets

Provisions for defaulted exposures made in accordance with related ratios after considering collaterals presented in "Communiqué of Provision". There is no differences for the bank between the definitions of past due and provision made loans.

Current Period 31 December 2017	Gross carrying values of (according to TAS)		Allowances / Amortisation and Impairments	Net Values
	Defaulted Exposures	Non-defaulted Exposures		
Loans	863.151	15.331.033	587.367	15.606.817
Debt Securities	-	1.609.238	1.739	1.607.499
Off-balance sheet exposure	1.765	19.408.104	305	19.409.564
Total	864.916	36.348.375	589.411	36.623.880

(*) Also includes factoring receivables amounting to TL 394.213.

Prior Period 31 December 2016	Gross carrying values of (according to TAS)		Allowances / Amortisation and Impairments	Net Values
	Defaulted Exposures	Non-defaulted Exposures		
Loans	1.430.906	14.181.425	981.278	14.631.053
Debt Securities	-	1.329.108	675	1.328.433
Off-balance sheet exposure	329	14.374.654	206	14.374.777
Total	1.431.235	29.885.187	982.159	30.334.263

(*) Also includes factoring receivables amounting to TL 476.308.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Changes in Stock of Defaulted Loans and Debt Securities:

	Current Period 31 December 2017	Prior Period 31 December 2016
I. Defaulted loans and debt securities at end of the previous reporting period	1.431.235	1.245.341
II. Loans and debt securities that have defaulted since the last reporting period	352.574	745.541
III. Returned to non-defaulted status	7.800	6.967
IV. Amounts written-off	641.607	286.605
V. Other Changes (*)	(269.486)	(266.075)
VI. Defaulted loans and debt securities at end of the reporting period end (I+II-III-IV±V)	864.916	1.431.235

(*) Includes current period collections.

4. Additional explanations on credit quality of assets

- credit for which the principal and/or interest cannot be collected within 90 days from the date they are due,
- credit which cannot be collected completely because the debtor cannot pay the debt related to equities or collateral and which have the potential to cause loss if the situation is not corrected,
- credit for which the debtor’s creditworthiness weakened and the credit is accepted to have become weak,
- credit for which the principal and/or interest cannot be paid for more than 90 days according to the Bank because the debtor has difficulty financing their operational capital or creating additional liquidity.

A provision is set aside for these kinds of credit based on the rates and collateral in regulations. The Bank recognises no difference between ‘overdue’ receivables and ‘provision allocated’ receivables.

Overdue receivables which exceed 90 days are subject to a special provision.

When determining the provision amount as per the Provisions Regulation, the relevant provisions should be taken into account based on the groups. Additionally, as per the Provisions Regulation, if liability related to credits and other receivables owed to the Bank cannot be met because of a temporary liquidity problem, credits and other receivables, including overdue interest, can be restructured by issuing additional credit as necessary to collect on Bank receivables, or can be included in a new redemption plan.

a) Breakdown of standard loans and receivables under close monitoring by geographical area, sector and outstanding maturity:

i. Breakdown by geographical area:

	Current Period 31 December 2017	Prior Period 31 December 2016
Domestic	15.138.669	13.721.791
European Union Countries	169.005	138.143
USA, Canada	2.946	22.224
OECD Countries (*)	4.067	9.761
Off-Shore Banking Regions	1.876	1.557
Other	14.470	287.949
Total	15.331.033	14.181.425

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

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ii. Breakdown by sector:

	Current Period 31 December 2017	Prior Period 31 December 2016
Agriculture	83.511	33.505
Farming and Raising Livestock	57.392	16.549
Forestry	52	3.583
Fishery	26.067	13.373
Manufacturing	5.647.484	3.984.743
Mining and Quarrying	15.056	23.515
Production	5.196.193	3.784.154
Electricity, Gas and Water	436.235	177.074
Construction	991.051	882.187
Services	4.452.820	3.756.394
Wholesale and Retail Trade	1.465.233	1.076.275
Accommodation and Dining	302.442	32.840
Transportation and Telecom.	691.327	856.840
Financial Institutions	1.048.574	969.195
Real Estate and Rental Services	5.532	22
Self-Employment Services	775.380	675.160
Educational Services	199	229
Health and Social Services	164.133	145.833
Other	4.156.167	5.524.596
Total	15.331.033	14.181.425

5. Remaining maturity distribution of receivables:

Details of maturity breakdown of receivables are disclosed in footnote VII, Section IV.

6. Provisions booked for receivables based on sector:

Provisions booked for receivables based on sector are disclosed in footnote II, Section IV.

7. Provisions booked for receivables based on geographical area:

Non-performing loans and provision amounts are mainly domestic. Specific provisions amounting to TL 859.284 are booked for domestic non-performing loan risk amount of TL 585.674.

a) Ageing analysis of accounting past-due exposures:

	31 December 2017	31 December 2016
30-60 days past-due exposures (*)	442.500	797.921
60-90 days past-due exposures	56.350	93.635
Total	498.850	891.556

(*) The balance of the loans that are classified as closely monitored although they are not past due or past due for less than 30 days is TL 351.039 (31 December 2016 TL: 135.723).

b) Breakdown of restructured receivables based on whether or not provisions are allocated:

	31 December 2017	31 December 2016
Loans Structured from Standard Loans and Other Receivables	224.204	545.934
Loans Composed of Follow-on Loans and Other Receivables	298.955	359.668
Loans Restructured from Non-Performing Loans	34.565	48.819

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

8. Qualitative disclosure on credit risk mitigation techniques:

The Bank’s credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation. The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques. Financial collaterals that are composed of cash or similar assets and instruments of a high credit quality as well as real estate mortgages have been used in credit risk mitigation.

If credit assignment is conditioned to a collateral extension, the data of the collaterals must be entered to the banking information system. Operational transactions are handled by centralized Operation unit. During the credit utilization, compliance of all conditions between credit decision and credit utilization (such as collateral conditions) are controlled systematically.

The Bank monitors up to date value of the collaterals by type. Credit monitoring process involves the control of the balance between the value of the collateral and risk besides creditworthiness of the customer.

9. Credit Risk Mitigation Techniques- Overview:

Current Period 31 December 2017	Exposures unsecured: carrying amount	Exposures secured by collaterals	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	14.566.714	1.040.103	679.364	4	122.729	-	-
Debt Securities	1.607.499	-	-	-	-	-	-
Total	16.174.213	1.040.103	679.364	4	122.729	-	-
Defaulted	860.631	3.800	-	485	485	-	-

Prior Period 31 December 2016	Exposures unsecured: carrying amount	Exposures secured by collaterals	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	13.140.172	1.490.881	1.086.255	254.808	210.428	-	-
Debt Securities	1.328.433	-	-	-	-	-	-
Total	14.468.605	1.490.881	1.086.255	254.808	210.428	-	-
Defaulted	1.416.275	14.593	-	367	367	-	-

d. Credit risk under standardised approach

1. Qualitative disclosures on banks’ use of external credit ratings under the standardised approach for credit risk

In Article 6 of Regulation on Bank’s Capital Adequacy Measurement and Evaluation, all of the receivables risk classes of centralised management and the Central Bank, and Moody’s Investor Service International Rating Agency rating grades for counterparty’s foreign receivables were used. The risk ratings of centralised management and the Central Bank, which are not rated by Moody’s Investor Service International Rating Agency, were determined to be gradeless. Domestic receivables were determined to be gradeless. Risk ratings of items which are not in purchase-sale accounts were determined by taking into account the issuer’s credit rating.

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The table below shows the credit risk ratings and credit quality scale for the grades given by Moody’s Investor Service International Rating Agency.

Moody's Investor Service Credit Quality Scale

Long-term Credit Ratings

- 1 Aaa - Aa3
- 2 A1 - A3
- 3 Baa - Ba3
- 4 Ba1 - Ba3
- 5 B1 - B3
- 6 Caa1 and below

Short-term Credit Ratings

- P-1
- P-2
- P-3
- NP

HSBC Bank’s Financial Power Rating

According to Moody’s Credit Rating Institution’s evaluations, HSBC Bank A.Ş.’s rating as of 31 December 2017 is as follows:

Definitions	Rating
Baseline Credit Assessment	b2
Outlook	Negative
Long-term foreign currency deposit rating	Ba3
Long-term TRY deposit rating	Ba3
Short-term foreign currency deposit rating	NP
Short-term TRY deposit rating	NP
Long-term national scale TRY deposit	A2.tr

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Standardised Approach-Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects

Current Period 31 December 2017	Exposures before CCF and CRM		Exposures post- CCF and CRM		Risk Weighted Amount and Risk Weighted Amount density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	Risk Weighted Amount	Risk Weighted Amount density
Asset classes						
Exposures to central governments or central banks	5.246.592	6	5.246.592	1	214.972	4%
Exposures to regional governments or local authorities	-	-	-	-	-	0%
Exposures to public sector entities	-	333	-	67	67	100%
Exposures to multilateral development banks	-	-	-	-	-	0%
Exposures to international organizations	-	-	-	-	-	0%
Exposures to institutions	1.433.776	1.421.935	1.430.764	1.151.495	889.476	34%
Exposures to corporates	9.946.515	3.197.175	9.942.259	1.976.722	11.916.138	100%
Retail exposures	3.882.797	4.613.147	3.766.747	245.858	3.029.255	75%
Exposures secured by residential property	378.226	589	378.227	197	132.448	35%
Exposures secured by commercial real estate	317.242	2.958	317.242	950	159.096	50%
Past-due loans	289.673	-	289.189	-	302.713	105%
Higher-risk categories by the Agency Board	-	-	-	-	-	0%
Exposures in the form of covered bonds	-	-	-	-	-	0%
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	0%
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	0%
Other assets	428.233	64.183	428.234	16.949	169.317	38%
Investment in equities	-	-	-	-	-	0%
Total	21.923.054	9.300.326	21.799.254	3.392.239	16.813.482	67%

Prior Period 31 December 2016	Exposures before CCF and CRM		Exposures post- CCF and CRM		Risk Weighted Amount and Risk Weighted Amount density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	Risk Weighted Amount	Risk Weighted Amount density
Asset classes						
Exposures to central governments or central banks	3.152.327	5	3.138.845	1	1.760.068	56%
Exposures to regional governments or local authorities	-	-	-	-	-	0%
Exposures to public sector entities	-	302	-	60	60	100%
Exposures to multilateral development banks	-	-	-	-	-	0%
Exposures to international organizations	-	-	-	-	-	0%
Exposures to institutions	1.713.447	1.993.799	1.713.452	1.566.330	1.189.094	36%
Exposures to corporates	7.246.006	3.024.639	7.123.217	1.762.628	8.886.040	100%
Retail exposures	5.013.558	5.535.174	4.925.166	243.424	3.898.432	75%
Exposures secured by residential property	675.297	2.632	675.297	760	236.620	35%
Exposures secured by commercial real estate	361.954	6.421	361.953	1.904	181.929	50%
Past-due loans	468.817	-	468.452	-	492.036	105%
Higher-risk categories by the Agency Board	-	-	-	-	-	0%
Exposures in the form of covered bonds	-	-	-	-	-	0%
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	0%
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	0%
Other assets	434.219	152.751	434.219	30.682	186.685	40%
Investment in equities	-	-	-	-	-	0%
Total	19.065.625	10.715.723	18.840.601	3.605.789	16.830.964	75%

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Standardised approach-exposures by asset classes and risk weights

Current Period 31 December 2017											
Asset Classes / Risk Weights	0%	10%	20%	35%	50% secured by real estate (*)	75%	100%	150%	200%	Other risk weights	Total credit risk exposure amount (After CCF and CRM)
Exposures to central governments or central banks	5.160.604	-	-	-	-	-	-	-	-	85.989	5.246.593
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	67	-	-	-	67
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	1.644.628	-	760.241	-	177.345	45	-	-	2.582.259
Exposures to corporates	-	-	-	-	-	-	11.918.213	768	-	-	11.918.981
Retail exposures	-	-	-	-	-	-	71.425	2.314	-	-	4.012.605
Exposures secured by residential property	-	-	-	378.424	-	3.938.866	-	-	-	-	378.424
Exposures secured by commercial real estate	-	-	-	-	318.192	-	-	-	-	-	318.192
Past-due loans	-	-	-	-	47.305	-	167.529	74.355	-	-	289.189
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-	-	-
Other assets	275.866	-	-	-	-	-	169.317	-	-	-	445.183
Total	5.436.470	-	1.644.628	378.424	1.125.738	3.938.866	12.503.896	77.482	-	85.989	25.191.493

(*) The amount shown on the line of “Exposures secured by commercial real estate” are “Exposures secured by real estate” and other amounts shown on this column represented exposures subject to 50% risk weight.

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Prior Period											
31 December 2016											
Asset Classes / Risk Weights	0%	10%	20%	35%	50% secured by real estate (*)	75%	100%	150%	200%	Other risk weights	Total credit risk exposure amount (After CCF and CRM)
Exposures to central governments or central banks	1.378.778	-	-	-	-	-	1.760.068	-	-	-	3.138.846
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	60	-	-	-	60
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	2.159.729	-	727.610	-	390.642	1.801	-	-	3.279.782
Exposures to corporates	-	-	-	-	-	-	8.885.455	390	-	-	8.885.845
Retail exposures	-	-	-	-	-	5.087.974	76.945	3.671	-	-	5.168.590
Exposures secured by residential property	-	-	-	676.057	-	-	-	-	-	-	676.057
Exposures secured by commercial real estate	-	-	-	-	363.857	-	-	-	-	-	363.857
Past-due loans	-	-	-	-	105.603	-	210.074	152.775	-	-	468.452
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-	-	-
Other assets	278.216	-	-	-	-	-	186.685	-	-	-	464.901
Total	1.656.994	-	2.159.729	676.057	1.197.070	5.087.974	11.509.929	158.637	-	-	22.446.390

(*) The amount shown on the line of “Exposures secured by commercial real estate” are “Exposures secured by real estate” and other amounts shown on this column represented exposures subject to 50% risk weight.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

e. Explanations on counterparty credit risk

1. Qualitative disclosure on counterparty credit risk

Counterparty credit risk refers to the risk when a party to a transaction in which both parties are liable becomes a default risk before the non-cash final payment of the said transaction. The Bank has taken positions on derivative financial instruments, repurchase agreements, reverse repurchase agreements, and similar transactions within the scope of counterparty’s credit risk. The counterparty’s credit risk is made up of the degree of probability that risk will fluctuate and the value resulting from the re-evaluation of client transactions based on market price. The counterparty’s credit risk is managed within the framework of general credit limit allocation and collateralisation principles and taken into account, with other cash and non-cash credit risks, using a holistic approach. Additionally, positions related to transactions causing counter party credit risk are followed under a separate risk limit. Limits and actualisations related to counterparty risk are followed with daily reports. Counter-trend risk changes are monitored within the general limits approved by clients and the Board of Directors based on regular reporting and executive management, and the Board of Directors is informed when necessary. In addition, probable changes in negative market conditions for clients and portfolios in general and regular stress tests, are evaluated using limits determine beforehand, and they are reported to executive management.

2. Analysis of counterparty credit risk (CRR) exposure by approach:

Current Period 31 December 2017	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure at default	Exposure at default post CRM	Risk Weighted Amount
Standardised Approach - CCR (For Derivatives)	688.188	631.836		1,4	1.320.025	728.962
Internal Model Method (for derivatives, repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-		-	-
Simple Approach for Credit Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
Comprehensive Approach for Credit Risk Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					89.773	27.140
Value at Risk for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
Total						756.102
Prior Period 31 December 2016	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure at default	Exposure at default post CRM	Risk Weighted Amount
Standardised Approach - CCR (For Derivatives)	977.151	385.416		1,4	1.362.573	647.179
Internal Model Method (for derivatives, repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-		-	-
Simple Approach for Credit Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
Comprehensive Approach for Credit Risk Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					152.997	31.076
Value at Risk for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
Total						678.255

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Credit valuation adjustment (CVA) capital charge:

Current Period 31 December 2017	Exposure at default post CRM	Risk Weighted Amount
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) Value at Risk component (Including the 3* multiplier)	-	-
(ii) Stressed Value at Risk component (Including the 3* multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	1.320.025	228.890
Total subject to the CVA capital charge	1.320.025	228.890
Prior Period 31 December 2016	Exposure at default post CRM	Risk Weighted Amount
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) Value at Risk component (Including the 3* multiplier)	-	-
(ii) Stressed Value at Risk component (Including the 3* multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	1.362.573	240.822
Total subject to the CVA capital charge	1.362.573	240.822

4. Standard Approach – Counterparty Credit Risk (CCR) Exposures by Risk Class and Risk Weights:

Current Period 31 December 2017									
Regulatory Portfolio / Risk weights	0%	10%	20%	50%	75%	100%	150%	Other	Total Credit Exposures(*)
Exposures to central governments or central banks	-	-	-	-	-	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to International organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	678.041	5.653	-	13.027	-	-	696.721
Exposures to corporates	-	-	-	-	-	574.870	-	-	574.870
Retail exposures	-	-	-	-	-	29.770	-	-	29.770
Exposures secured by residential property	-	-	-	-	-	-	-	-	-
Exposures secured by commercial real estate	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	-	-	678.041	5.653	-	617.667	-	-	1.301.361

(*) Total credit exposure: the amount relevant for the capital requirements calculation, having applied credit risk mitigation techniques.

Prior Period 31 December 2016									
Regulatory Portfolio / Risk weights	0%	10%	20%	50%	75%	100%	150%	Other	Total Credit Exposures(*)
Exposures to central governments or central banks	13.482	-	-	-	-	-	-	-	13.482
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to International organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	1.044.331	3.698	-	9.130	-	-	1.057.159
Exposures to corporates	-	-	-	-	-	439.886	-	-	439.886
Retail exposures	-	-	-	-	-	18.524	-	-	18.524
Exposures secured by residential property	-	-	-	-	-	-	-	-	-
Exposures secured by commercial real estate	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	13.482	-	1.044.331	3.698	-	467.540	-	-	1.529.051

(*) Total credit exposure: the amount relevant for the capital requirements calculation, having applied credit risk mitigation techniques.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

5. Composition of collateral for CCR exposure:

Current Period 31 December 2017	Collateral used in derivative transactions				Collateral used in other transactions	
	Fair Value of Collateral Received		Fair Value of Posted Collateral		Fair Value of Collateral Received	Fair Value of Posted Collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	210.220
Cash – other currencies	-	-	-	-	-	1.584.745
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	1.772.738	-
Government agency bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collaterals	-	-	-	-	-	-
Total	-	-	-	-	1.772.738	1.794.965

Prior Period 31 December 2016	Collateral used in derivative transactions				Collateral used in other transactions	
	Fair Value of Collateral Received		Fair Value of Posted Collateral		Fair Value of Collateral Received	Fair Value of Posted Collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	532.113	418.517
Cash – other currencies	-	-	-	-	-	3.954.478
Domestic sovereign debt	-	-	-	-	-	536.328
Other sovereign debt	-	-	-	-	4.410.193	-
Government agency bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collaterals	-	-	-	-	-	-
Total	-	-	-	-	4.942.306	4.909.323

6. Credit derivatives exposures

None.

7. Exposures to central counterparties

None.

f. Securitization Disclosures

None.

g. Explanations on market risk:

1. Qualitative disclosures on market risk:

Market risk is defined as the risk of the decrease in value of the trading portfolio due to shifts in interest rate, currency, stock market, and commodity and option prices. To measure possible losses internally, in addition to taking into consideration the calculations made by the standard method in statutory reportings, the Bank uses Value-at-Risk (VaR), Value at Risk under Stress (VaRS) and Additional Risk Capital Requirement (ARCR) models. The difference between the risk pointed by the internal models and the standard method is taken into account in the calculation of economic capital.

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

The Bank monitors market risk through daily currency option limits, maximum loss limits, portfolio size limits and sensitivity to interest (Present Value Basis Points - PVBP in the breakdown of portfolio, maturity and currency), in addition to VaR limits that are separately applied on the basis of portfolio and risk factor (interest, currency risk). Risk monitoring and control activities are carried out by independent units.

VaR is calculated by the historical simulation method by calibrating over the daily profit/loss data of the last two years, and scenarios are updated every two weeks. VaR is calculated on the basis of one-way confidence interval of 99% and a daily holding period, in summary, indicates the observed worst 5th loss number eventually re-calculated according to portfolio’s last 500 daily market changes regarding the subjected day. Back testing is also performed daily to test the accuracy of the estimates VaR method consists.

The value subject to risk under stress, is calculated weekly for 1 year stress period within 99% trust interval on the basis of a holding period of 10 days. In this context, the portfolio’s stress RMD within 250 days stress period regarding the subjected day, indicates the worst 2nd and 3rd loss numbers average observed as a result of re-calculated according to daily market changes. For the general of HSBC Group the stress period is calibrated once every 3 months taking the worst market conditions into consideration and in addition taking different risk profiles into consideration; countrywide stress period evaluations and impact analysis are being done and reported from 1 January 2007 to date.

Additional Risk Capital Requirement represents the loss that can occur due to the possibility of a decrease in the credit worthiness of issuers of securities in the trading portfolio. In addition to VaR and PVBP restrictions, Stress Tests are also being used to measure the potential effects of possible but extreme situations in various financial factors or market movements on the value of the portfolio. Stress Test results are assessed by the Senior Management in order to determine the effects of such incidents on the financials and to take necessary precautions to narrow down possible losses.

Market risk limits are evaluated by related senior management including the Risk Management Unit Manager, Market and Counterparty Risk Unit Manager and Chief Executive of the Bank. Limits are reviewed at least once a year by the Risk Management Committee and presented to the Audit Committee and Board of Directors for approval. Risk Management Committee can set a sublimit and can change the limits, with the main limits set by the Board of Directors remaining fixed.

Market risk limits and actualizations are tracked daily by management and business lines, are presented weekly to the Board of Directors, monthly to ALCO, Risk Management Committee and Audit Committee.

2. Standardised Approach

	Current Period 31 December 2017	Prior Period 31 December 2016
	Risk Weighted Amount	Risk Weighted Amount
Outright Products		
Interest Rate Risk (general and specific)	409.400	376.536
Equity Risk (general and specific)	5.425	8.588
Foreign Exchange Risk	158.700	350.338
Commodity Risk	-	-
Options		
Simplified Approach	-	-
Delta-plus Method	5.825	3.613
Scenario Approach	-	-
Securitisation	-	-
Total	579.350	739.075

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

h. Explanations on operational risk:

The amount subject to the operational risk is calculated once every year through the use of “Basic Indicator Method” in the “Regulation Regarding Measurement and Evaluation of the Bank’s Capital Adequacy Ratio” published in the Official Gazette No.29511 dated 23 October 2015 and effective as of 1 July 2012. The amount subject to operational risk is calculated with the usage of the gross income of the Bank in 2014, 2015 and 2016.

The annual gross income is composed of net interest income and net non-interest income after deducting realised gains/losses from the sale of securities available-for-sale and held-to-maturity, extraordinary income and income derived from insurance claims at year-end.

Current Period	31.12.2014	31.12.2015	31.12.2016	Total/Number of Positive Gross Income Years	Rate (%)	Total
Gross Income	1.691.023	1.668.476	1.440.656	1.600.052	15	240.008
Operational Risk Capital Requirement (Total*12,5)						3.000.097

XII. EXPLANATIONS ON OPERATING SEGMENTS

The Bank operates in retail banking, corporate and investment banking, treasury and capital markets.

In the retail banking segment, the Bank provides debit card, credit card, deposits, consumer loan, payment and collection, premier customer services, custodian services, financial planning, insurance products services. In corporate and commercial banking segment, the Bank provides loans, commercial card, foreign trade financing, structured trading financing, export financing, syndications, custodian services, cash and risk management services. In the corporate and investment banking segment, the Bank provides loan and investment services, commercial card, insurance products, cash and risk management services to its customers. Also the Bank provides marketable securities transactions, gold and foreign exchange transactions, derivative transactions and money market transactions services to its customers.

	Retail Banking	Corporate and Investment Banking	Treasury and Capital Markets	Other	Bank’s Total Activities
Current Period – 31 December 2017					
Operating Income	742.668	487.423	287.085	-	1.517.176
Other	-	-	-	-	-
Operating Income	742.668	487.423	287.085	-	1.517.176
Segment Net Profit	-	-	-	-	-
Undistributed Cost	-	-	-	-	-
Operating Profit/(Loss)	(174.007)	215.141	196.151	(69.450)	167.835
Profit before Tax	(174.007)	215.141	196.151	(69.450)	167.835
Corporate Tax Provision (*)	-	-	-	140.902	140.902
Profit after Tax	(174.007)	215.141	196.151	71.452	308.737
Non-Controlling Interest	-	-	-	-	-
Net Profit for the Period	(174.007)	215.141	196.151	71.452	308.737
Segment Assets	4.333.305	13.693.924	6.565.721	-	24.592.950
Associates and Subsidiaries	-	-	34.753	220	34.973
Undistributed Assets	-	-	-	-	-
Total Assets	4.333.305	13.693.924	6.600.474	220	24.627.923
Segment Liabilities	10.962.908	7.024.955	1.816.707	4.823.353	24.627.923
Undistributed Liabilities	-	-	-	-	-
Total Liabilities	10.962.908	7.024.955	1.816.707	4.823.353	24.627.923
Other Segment Items	(433.016)	(6.597)	(12.313)	-	(451.926)
Capital Investment	-	-	-	-	-
Amortization	(18.664)	(6.597)	(4.043)	-	(29.304)
Impairment	-	-	(8.270)	-	(8.270)
Non-Cash Other Income-Expense (**)	(414.352)	-	-	-	(414.352)

(*) Corporate tax provision is not distributed.

(**) Non-Cash Other Income-Expense includes other income and expense accruals and provisions.

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XII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

	Retail Banking	Corporate and Investment Banking	Treasury and Capital Markets	Other	Bank's Total Activities
Prior Period - 31 December 2016					
Operating Income	913.068	445.559	277.345	-	1.635.972
Other	-	-	-	-	-
Operating Income	913.068	445.559	277.345	-	1.635.972
Segment Net Profit	-	-	-	-	-
Undistributed Cost	-	-	-	-	-
Operating Profit/(Loss)	(392.521)	(53.601)	201.990	(108.235)	(352.367)
Profit before Tax	(392.521)	(53.601)	201.990	(108.235)	(352.367)
Corporate Tax Provision (*)	-	-	-	(4.231)	(4.231)
Profit after Tax	(392.521)	(53.601)	201.990	(112.466)	(356.598)
Non-Controlling Interest	-	-	-	-	-
Net Profit for the Period	(392.521)	(53.601)	201.990	(112.466)	(356.598)
Segment Assets	6.165.504	12.676.924	5.491.965	-	24.334.393
Associates and Subsidiaries	-	-	34.753	270	35.023
Undistributed Assets	-	-	-	-	-
Total Assets	6.165.504	12.676.924	5.526.718	270	24.369.416
Segment Liabilities	11.703.019	8.150.144	81.301	4.434.952	24.369.416
Undistributed Liabilities	-	-	-	-	-
Total Liabilities	11.703.019	8.150.144	81.301	4.434.952	24.369.416
Other Segment Items	(140.405)	(8.167)	(3.282)	-	(151.854)
Capital Investment	-	-	-	-	-
Amortization	(36.139)	(8.167)	(3.231)	-	(47.537)
Impairment	-	-	(51)	-	(51)
Non-Cash Other Income-Expense (**)	(104.266)	-	-	-	(104.266)

(*) Corporate tax provision is not distributed.

(**) Non-Cash Other Income-Expense includes other income and expense accruals and provisions.

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SECTION FIVE

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO ASSETS

a. Information related to cash equivalents and balances with the Central Bank of the Republic of Turkey (The “CBRT”):

1. Information on cash equivalents and balances with the CBRT:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Cash/Foreign Currency	71.256	172.506	133.024	118.411
The CBRT	1.899.730	1.747.251	46.713	1.452.877
Other (*)	-	12.712	-	17.895
Total	1.970.986	1.932.469	179.737	1.589.183

(*) As of 31 December 2017, account of Precious Metal is amounting to TL 12.712 (31 December 2016: TL 17.895), and there is no Bank money in transit (31 December 2016: None).

2. Information related to balances with the CBRT:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Unrestricted Demand Deposit	463.564	462.805	46.713	2.184
Unrestricted Time Deposit	1.436.166	3.801	-	-
Restricted Time Account	-	-	-	-
Reserve Requirements	-	1.280.645	-	1.450.693
Total	1.899.730	1.747.251	46.713	1.452.877

3. Explanation on reserve deposits:

The banks operating in Turkey are subject to the Central Bank of the Republic of Turkey’s Communiqué numbered 2005/1 and are required to keep a deposit at the CBRT for their Turkish Lira, USD and/or Euro and standard gold.

As of 31 December 2017, the reserve deposit rates vary according to their maturity structure; the reserve deposit rates are realized between 4% - 10,50% (31 December 2016: 4% - 10,50%), for TL deposits and other liabilities, and between 4% - 24% for FC deposits (31 December 2016: 4,50% - 24,50%).

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

b. Information on financial assets at fair value through profit or loss:

1. Financial assets given as collateral/blocked and subject to repurchase agreements:

	Current Period 31 December 2017	Prior Period 31 December 2016
Collateral/Blocked	-	-
Repurchase Agreement	-	-
Unrestricted	258.434	71.964
Total	258.434	71.964

2. Positive differences table related to trading derivative financial assets:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Forward Transactions	82.389	44.821	69.443	16.269
Swap Transactions	99.204	238.280	525.092	142.442
Futures Transactions	-	-	-	-
Options	-	223.505	-	154.562
Other	-	-	-	-
Total	181.593	506.606	594.535	313.273

c. Information on banks:

1. Information on banks and other financial institutions:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Banks				
Domestic	-	-	-	1
Foreign	821	343.112	42.060	877.826
Foreign Head Office and Branches	-	-	-	-
Total	821	343.112	42.060	877.827

2. Information on foreign banks balances:

	Unrestricted Amount		Restricted Amount	
	Current Period	Prior Period	Current Period	Current Period
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
European Union Countries	8.873	104.728	-	-
USA, Canada	333.908	666.856	-	-
OECD Countries (*)	715	47	-	-
Off-Shore Banking Regions	133	80	-	-
Other	304	985	-	147.190
Total	343.933	772.696	-	147.190

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

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

d. Information on financial assets available-for-sale:

1. Financial assets given as collateral/blocked and subject to repurchase agreements:

	Current Period 31 December 2017	Prior Period 31 December 2016
Collateral/Blocked	311.891	683.332
Repurchase Agreement	-	536.123
Unrestricted	1.050.273	43.674
Total	1.362.164	1.263.129

2. Information on financial assets available-for-sale:

	Current Period 31 December 2017	Prior Period 31 December 2016
Debt Securities	1.350.779	1.257.091
Quoted to Stock Exchange	1.350.779	1.257.091
Not Quoted	-	-
Share Certificate	13.099	6.660
Quoted to Stock Exchange	-	-
Not Quoted	13.099	6.660
Impairment Provision (-)	1.714	622
Total	1.362.164	1.263.129

e. Information related to loans:

1. Information on all types of loans and advances given to shareholders and employees of the Bank:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	Cash	Non-cash	Cash	Non-cash
Direct Loans Granted to Shareholders	-	117.901	-	81.777
Corporate Shareholders	-	117.901	-	81.777
Real Person Shareholders	-	-	-	-
Indirect Loans Granted to Shareholders	5.338	442.650	7.404	463.715
Loans Granted to Employees	12.900	-	14.478	-
Total	18.238	560.551	21.882	545.492

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

2. Information on the first and second group loans and other receivables including loans that have been restructured or rescheduled:

	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables	Loans and other receivables with revised contract terms	Other	Loans and Other Receivables	Loans and other receivables with revised contract terms	Other
		Restructured or Rescheduled	Other		Restructured or Rescheduled	Other
Non-specialised Loans	14.337.371	224.204	-	470.503	298.955	-
Commercial Loans	8.594.794	163.273	-	336.517	262.262	-
Export Loans	321.418	-	-	-	-	-
Import Loans	-	-	-	-	-	-
Loans Granted to Financial Sector	350.745	-	-	-	-	-
Consumer Loans	1.709.621	127	-	72.687	1.000	-
Credit Cards	2.212.900	60.804	-	60.068	35.677	-
Other (*)	1.147.893	-	-	1.231	16	-
Specialised Loans	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-
Total	14.337.371	224.204	-	470.503	298.955	-

(*) Includes the factoring receivables amounting to TL 394.213.

Number of Extensions	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
	Extended by 1 or 2 times	224.204
Extended by 3, 4 or 5 times	-	-
Extended by more than 5 times	-	-
Total	224.204	298.955

Extended period of time	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
	0 – 6 Months	192
6 – 12 Months	8.087	2.394
1 – 2 Years	28.305	51.932
2 – 5 Years	187.399	78.878
5 years or more	221	165.653
Total	224.204	298.955

3. Breakdown of loans according to their maturities:

	Standard Loans and Other Receivables		Loans and Other Receivables under Close Monitoring	
	Loans and Other Receivables	Restructured or Rescheduled	Loans and Other Receivables	Restructured or Rescheduled
Short-Term Loans and Other Receivables	7.686.066	69.082	84.436	38.082
Non-Specialized Loans (*)	7.686.066	69.082	84.436	38.082
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-
Medium and Long-Term Loans and Other Receivables	6.651.305	155.121	386.069	260.872
Non-Specialized Loans	6.651.305	155.121	386.069	260.872
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-

(*) Includes the factoring receivables amounting to TL 394.213.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

4. Information on consumer loans, personal credit cards, personnel loans and personnel credit cards:

	Short-term	Medium and Long-term	Total
Consumer Loans-TL	41.233	1.526.417	1.567.650
Mortgage Loans	-	730.159	730.159
Automotive Loans	-	6.636	6.636
Consumer Loans	41.233	785.107	826.340
Other	-	4.515	4.515
Consumer Loans- Indexed to FC	-	132	132
Mortgage Loans	-	132	132
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	2.260.188	94.291	2.354.479
Instalment	859.165	94.291	953.456
Non Instalment	1.401.023	-	1.401.023
Individual Credit Cards-FC	6.787	-	6.787
Instalment	-	-	-
Non Instalment	6.787	-	6.787
Personnel Loans-TL	453	7.627	8.080
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	453	7.627	8.080
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	4.746	-	4.746
Instalment	2.189	-	2.189
Non Instalment	2.557	-	2.557
Personnel Credit Cards-FC	74	-	74
Instalment	-	-	-
Non Instalment	74	-	74
Overdraft Account-TL (Individual)	207.573	-	207.573
Overdraft Account-FC (Individual)	-	-	-
Total Consumer Loans	2.521.054	1.628.467	4.149.521

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information on commercial instalment loans and corporate credit cards:

	Short-term	Medium and Long-term	Total
Commercial Instalment Loans-TL	4.794	163.218	168.012
Mortgage Loans	-	1.556	1.556
Automotive Loans	-	1.122	1.122
Consumer Loans	4.794	160.540	165.334
Other	-	-	-
Commercial Instalment Loans- Indexed to FC	463	87.159	87.622
Mortgage Loans	-	2.166	2.166
Automotive Loans	-	1.602	1.602
Consumer Loans	463	83.391	83.854
Other	-	-	-
Commercial Instalment Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	2.607	-	2.607
Instalment	344	-	344
Non Instalment	2.263	-	2.263
Corporate Credit Cards-FC	756	-	756
Instalment	-	-	-
Non Instalment	756	-	756
Overdraft Account-TL (Commercial)	55.129	-	55.129
Overdraft Account-FC (Commercial)	-	-	-
Total	63.749	250.377	314.126

6. Loans according to types of borrowers:

	Current Period 31 December 2017	Prior Period 31 December 2016
Public	-	-
Private (*)	15.331.033	14.181.425
Total	15.331.033	14.181.425

(*) Includes the factoring receivables amounting to TL 394.213 (31 December 2016: TL 476.308)

7. Domestic and foreign loans:

	Current Period 31 December 2017	Prior Period 31 December 2016
Domestic Loans	15.138.669	13.721.791
Foreign Loans	192.364	459.634
Total (*)	15.331.033	14.181.425

(*) Includes the factoring receivables amounting to TL 394.213 (31 December 2016: TL 476.308)

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

8. Loans granted to investments in associates and subsidiaries:

As of 31 December 2017 and 31 December 2016, the Bank has no loans granted to investments in associates and subsidiaries.

9. Specific provisions provided against loans:

	Current Period 31 December 2017	Prior Period 31 December 2016
Loans and Receivables with Limited Collectability	12.128	28.491
Loans and Receivables with Doubtful Collectability	48.901	111.688
Uncollectible Loans and Receivables	526.338	841.099
Total	587.367	981.278

10. Information on non-performing loans (Net):

10 (i). Information on non-performing loans and other receivables restructured or rescheduled:

	III. Group	IV. Group	V. Group
	Loans and Other Receivables with Limited Collectability	Loans and Other Receivables with Doubtful Collectability	Uncollectible Loans and Other Receivables
Current Period: 31 December 2017	626	600	33.339
(Gross Amounts Before Specific Provisions)			
Restructured Loans and Other Receivables	626	600	33.339
Rescheduled Loans and Other Receivables	-	-	-
Prior Period: 31 December 2016	28.986	8.396	11.437
(Gross Amounts Before Specific Provisions)			
Restructured Loans and Other Receivables	28.986	8.396	11.437
Rescheduled Loans and Other Receivables	-	-	-

10 (ii). Information on the movement of total non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and Other Receivables with Limited Collectability	Loans and Other Receivables with Doubtful Collectability	Uncollectible Loans and Other Receivables
Balance at the end of Prior Period: 31 December 2016	186.475	257.235	987.196
Additions (+)	342.145	3.432	5.498
Transfers from Other Categories of Non-Performing Loans (+)	3.993	388.510	413.469
Transfers to Other Categories of Non-Performing Loans (-)	391.060	414.910	-
Collections (-)	95.237	134.812	47.176
Write-offs (-) (*)	597	3.571	637.439
Corporate and Commercial Loans	153	53	72.676
Retail Loans	96	631	224.344
Credit Cards	348	2.887	340.419
Other	-	-	-
Balance at the End of the Period: 31 December 2017	45.719	95.884	721.548
Specific Provisions (-)	12.128	48.901	526.338
Net Balance in Balance Sheet	33.591	46.983	195.210

(*) The Bank has concluded the sale of non-performing corporate and commercial loans amounting to TL 67.171 for TL 16.797 in 27 March 2017 and the sale of non-performing credit cards and retail loans amounting to TL 540.335 for TL 49.300 in 21 September 2017.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

10 (iii). Information on non-performing loans granted as foreign currency loans:

As of December 2017, the bank has no non-performing loans granted as foreign currency loans (31 December 2016: TL 99).

10 (iv). Breakdown of gross and net values of the non-performing loans according to their beneficiary group:

	III. Group	IV. Group	V. Group
	Loans and Other Receivables with Limited Collectability	Loans and Other Receivables with Doubtful Collectability	Uncollectible Loans and Other Receivables
Current Period (Net): 31 December 2017	33.591	46.983	195.210
Loans granted to corporate entities and real persons (Gross)	45.719	95.884	721.548
Specific Provisions Amount (-)	12.128	48.901	526.338
Loans granted to corporate entities and real persons (Net)	33.591	46.983	195.210
Banks (Gross)	-	-	-
Specific Provisions Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Advances (Gross)	-	-	-
Specific Provisions Amount (-)	-	-	-
Other Loans and Advances (Net)	-	-	-
Prior Period (Net): 31 December 2016	157.984	145.547	146.097
Loans granted to corporate entities and real persons (Gross)	-	-	-
Specific Provisions Amount (-)	186.475	257.235	987.196
Loans granted to corporate entities and real persons (Net)	28.491	111.688	841.099
Banks (Gross)	157.984	145.547	146.097
Specific Provisions Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Advances (Gross)	-	-	-
Specific Provisions Amount (-)	-	-	-
Other Loans and Advances (Net)	-	-	-

11. Information on the collection policy of non-performing loans and other receivables

For uncollectible loans, primarily, a reach for an agreement with the company and third parties (natural and/or legal) having guarantees subject to the risk is being sought and actions either aimed at liquidation of collateral in the loan risk warranty or aimed at proceedings without judgement are taken. In case of obtaining no result in consequence of these actions, liquidation subject to requirements within the framework of legal regulations designated by the Bank's top management occurs.

12. Information on the write-off policy of the Bank:

The general policy of the Bank is oriented to the collection, whereas written off is applied exceptionally.

f. Investments held-to-maturity:

1. Information on financial assets given as collateral/blocked and subject to repurchase agreements and those:

As of 31 December 2017 and 31 December 2016, the Bank has no investment held to maturity given as collateral/blocked and subject to repurchase agreements.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

2. Information on government debt securities held-to-maturity:

As of 31 December 2017 and 31 December 2016, the Bank has no investments as government debt securities held to maturity.

3. Information on investments held-to-maturity:

As of 31 December 2017 and 31 December 2016, the Bank has no investments held to maturity.

4. The movement of investment securities held-to-maturity:

As of 31 December 2017 and 31 December 2016, the Bank has no investments of held to maturity movement.

g. Information on associates (Net):

The Bank has no associates as of 31 December 2017 and 31 December 2016.

h. Information on subsidiaries (Net):

1. Information on capital adequacy of major subsidiaries:

The Bank does not have any capital needs due to its subsidiaries included in the calculation of its consolidated capital adequacy standard ratio. Information on capital adequacy of major subsidiaries is presented below.

HSBC Yatırım ve Menkul Değerler A.Ş. (*)

Core Capital	76.854
Paid-in Capital	7.000
Share Premium	-
Reserves	34.466
Current Period's Profit and Prior Periods' Profit	34.265
Current Period's Losses and Prior Periods' Losses	-
Leasehold Improvements on Operational Leases (-)	-
Intangible Assets (-)	172
Supplementary Capital	-
Deductions from Capital	-
Net Available Equity	75.559

(*) Prepared with the non-audited financial statements as of 31 December 2017.

2. Information on unconsolidated subsidiaries:

a) Unconsolidated subsidiaries:

Title	Address (City/Country)	Bank's share percentage If different voting percentage (%)	Bank's risk group share percentage (%)
1 HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş.	Esentepe Mahallesi Büyükdere Caddesi No:128 Şişli 34394, İSTANBUL	100,00	0,00

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

b) Main financial figures of the subsidiaries, in the order of the above table (*):

	Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1	3.389	2.433	17	-	-	1.843	1.319	-

(*) Prepared with the non-audited financial statements as of 31 December 2017.

3. Information on the consolidated subsidiaries:

HSBC Yatırım was established as Demir Yatırım on 23 December 1996. The merger of the Demir Yatırım and HSBC Yatırım was realized and the merger agreement was signed, with the Board of Directors decision No. 222 and dated 6 December 2001 based on the authority given to the Board of Directors in accordance with General Assembly decision dated 30 October 2001. Also dissolution of HSBC Yatırım and change of the title of the new merged company to HSBC Yatırım Menkul Değerler A.Ş. was agreed and the merger of these two companies was accomplished as of 11 January 2002.

a) Consolidated subsidiaries:

Title	Address (City/Country)	Bank's share percentage - If different voting percentage (%)	Bank's risk group share percentage (%)
1 HSBC Yatırım ve Menkul Değerler A.Ş.	Esenteppe Mahallesi Büyükdere Caddesi No:128 Şişli 34394, İSTANBUL	99,87	0,13

b) Main financial figures of the subsidiaries, in the order of the above table (*):

	Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss (**)	Fair Value
1	84.528	70.074	1.339	5.337	1.434	14.926	15.006	-

(*) Prepared with the non-audited financial statements as of 30 September 2017.

(**) The prior period balances represent the amounts as of 30 September 2016.

4. Movement schedule of the consolidated subsidiaries:

	Current Period 31 December 2017	Prior Period 31 December 2016
Balance at the Beginning of the Period	34.753	34.753
Movements During the Period		
Purchases	-	-
Bonus Shares and Contributions to Capital	-	-
Dividends From Current Year Profit	-	-
Sales/Liquidation	-	-
Revaluation Increase	-	-
Increase/(Decrease) of Valuation	-	-
Balance at the End of the Period	34.753	34.753
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	99,87	99,87

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Sectoral information on financial subsidiaries and the related carrying amounts:

	Current Period 31 December 2017	Prior Period 31 December 2016
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	-	-
Other Financial Subsidiaries	34.753	34.753

6. Subsidiaries quoted on a stock exchange:

The Bank has no subsidiaries quoted on a stock exchange as of 31 December 2017 and 31 December 2016.

i. Information on jointly controlled entities:

- The Bank has no jointly controlled entities as of 31 December 2017 and 31 December 2016.
- As of 31 December 2017 and 31 December 2016, the accounting method is not determined since the Bank has no jointly controlled entities.

j. Information on financial lease receivables (Net):

As of 31 December 2017 and 31 December 2016, the Bank has no finance leases.

k. Information on hedging derivative financial assets:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Fair Value Hedge	-	-	-	-
Cash Flow Hedge	-	-	69.454	-
Foreign Net Investment Hedge	-	-	-	-
Total	-	-	69.454	-

l. Explanations on property and equipment:

Prior Period End:	Land and Buildings	Vehicles	Other Tangible Fixed Assets	Total
Cost	22.733	667	788.427	811.827
Accumulated Depreciation and Impairment (-)	14.271	661	715.297	730.229
Net Book Value	8.462	6	73.130	81.598
Current Period End:				
Net Book Value at the Beginning	8.462	6	73.130	81.598
Additions	-	-	33.284	33.284
Disposals (-) (net)	-	-	8.399	8.399
Depreciation (-)	383	6	23.423	23.812
Cost at Period End	22.733	667	813.311	836.711
Accumulated Depreciation at Period End (-)	14.654	667	738.719	754.040
Closing Net Book Value	8.079	-	74.592	82.671

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

m. Information on intangible assets:

1. Gross book value and accumulated depreciation amounts at the beginning and ending of the period:

	Current Period 31 December 2017	Prior Period 31 December 2016
Gross book value	377.766	431.075
Accumulated depreciation(-)	230.008	303.374
Net Book Value	147.758	127.701

2. Table of movements between beginning of the period and ending of the period:

	Current Period 31 December 2017	Prior Period 31 December 2016
Opening balance	127.701	33.775
Additions (*)	36.207	114.019
Disposals (-) (net)	-	-
Depreciation (-)	16.150	20.093
Closing Net Book Value	147.758	127.701

(*) Includes basic banking infrastructure investment costs made in 2017.

n. Information on the investment properties:

As of 31 December 2017 and 31 December 2016, the Bank has no investment properties.

o. Information on deferred tax asset:

	Cumulative		Deferred Tax Asset/Liability	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Fiscal Loss	293.780	667.046	64.632	133.409
Unearned Revenues	60.566	68.384	13.244	13.677
Employee Termination Benefit Provision	55.835	48.491	11.545	9.698
Restructuring Provision	85.965	127.051	18.912	25.410
Derivative Expense Rediscount Provision	50.980	-	11.638	-
Other	139.246	202.826	30.649	40.566
Deferred Tax Asset	686.372	1.113.798	150.620	222.760
Derivative Transactions Fair Value Difference	-	(333.446)	-	(66.689)
Other	(20.107)	(21.957)	(4.355)	(4.392)
Deferred Tax Liability	(20.107)	(355.403)	(4.355)	(71.081)
Deferred Tax Asset Recognized as Expense (*)			-	(151.679)
Net Tax Asset (**)			146.265	-

(*) Net deferred tax assets of the Bank as of 31 December 2016 are not recorded in balance sheet records.

(**) Information of deferred tax asset of the Bank as of 31 December 2017 is explained in Note XVIII of Section Three.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

p. Information on assets held for sale and related to discontinued operations:

HSBC Bank A.Ş. signed the share transfer agreement regarding to the Board of Directors decision dated on 23 March 2017 on selling all banking activities of Cyprus Branches of HSBC Bank A.Ş. and the required legal process was completed as of 3 December 2017. The Cyprus Branches of HSBC Bank A.Ş.’s 100% shares have been sold to Albank. The loss of 13 thousand TL which was incurred due to the sale have been shown under “Other Operating Expense” in financial tables. The table below represents the summary financial information on the branches as of 1 December 2017.

	Net Amount
Banks	60.178
Securities Portfolio	10.474
Loans and Receivables (Net)	64.565
Other Assets	144.473
Total Assets	279.690

	Net Amount
Deposit	232.482
Banks	-
Provisions	3.248
Other Liabilities	43.960
Total Liabilities	279.690

	Net Amount
Interest Income	27.609
Interest Expense	17.800
Net Interest Income	9.809
Exchange Profit / Loss (Net)	(139)
Specific Provisions for Non-Performing Loans (-)	4.715
Other Non-Interest Income	6.002
Other Operating Expenses (-)	12.043
Net Profit / Loss	(1.086)

As of 31 December 2017, assets held for sale of the Bank is TL 1.690 (31 December 2016: TL 2.742).

	Current Period 31 December 2017	Prior Period 31 December 2016
Prior Period End:		
Cost	2.896	3.594
Accumulated Depreciation (-)	154	150
Net Book Value	2.742	3.444
Current Period End:		
Net Book Value at the Beginning	2.742	3.444
Additions	1.647	1.299
Disposals (-) (Net)	2.691	1.998
Depreciation (-)	8	4
Cost at Period End	1.852	2.896
Accumulated Depreciation at Period End (-)	162	154
Closing Net Book Value	1.690	2.742

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

q. Information on other assets:

1. There are no further explanations of the Bank related to prepaid expenses, tax and other operations.

	Current Period 31 December 2017	Prior Period 31 December 2016
Miscellaneous Receivables (*)	138.520	6.004
Prepaid Expenses	45.131	37.394
Debited Suspence Accounts	35.711	57.308
Other Rediscount Income	19.614	12.312
Other Assets	283	378
Total	239.259	113.396

(*) Includes the BIST and derivative securities.

r. Information on receivables from forward sale of the assets classified in the miscellaneous receivables:

As of 31 December 2017 and 31 December 2016, the Bank has no receivables from forward sale of the assets classified in the miscellaneous receivables.

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES

a. Information on deposits

1. Information on maturity structure of the deposits:

The Bank has no deposits with 7 days maturity and no cumulative deposits.

1 (i). Current Period - 31 December 2017:

	Demand	With 7 Days Maturity	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 Months- 1 Year	1 Year and Over	Cumulative Deposit	Total
Saving Deposits	327.489	-	621.402	2.353.417	101.779	35.963	18.771	-	3.458.821
Foreign Currency Deposits	1.755.597	-	2.212.430	5.476.086	306.760	93.851	47.733	-	9.892.457
Residents in Turkey	1.480.797	-	2.090.588	4.977.945	270.272	76.959	15.866	-	8.912.427
Residents Abroad	274.800	-	121.842	498.141	36.488	16.892	31.867	-	980.030
Public Sector Deposits	7.594	-	-	-	-	-	-	-	7.594
Commercial Deposits	362.110	-	844.775	20.325	12.325	34	1.307	-	1.240.876
Other Institutions Deposits	3.665	-	696	-	-	-	-	-	4.361
Precious Metal Deposit	176.338	-	-	-	-	-	79.865	-	256.203
Bank Deposits	57.602	-	1.451.801	-	-	-	-	-	1.509.403
The CBRT	-	-	1.418.277	-	-	-	-	-	1.418.277
Domestic Banks	-	-	-	-	-	-	-	-	-
Foreign Banks	57.602	-	33.524	-	-	-	-	-	91.126
Participation Banks	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	2.690.395	-	5.131.104	7.849.828	420.864	129.848	147.676	-	16.369.715

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1 (ii). Prior Period - 31 December 2016:

	Demand	With 7 Days Maturity	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 Months- 1 Year	1 Year and Over	Cumulative Deposit	Total
Saving Deposits	415.452	- 1.053.445	2.991.576	115.186	39.997	24.754	-	- 4.640.410	
Foreign Currency Deposits	1.986.054	- 2.108.789	4.166.221	349.110	101.985	51.285	-	- 8.763.444	
Residents in Turkey	1.665.892	- 1.769.199	3.582.843	303.834	74.175	17.790	-	- 7.413.733	
Residents Abroad	320.162	- 339.590	583.378	45.276	27.810	33.495	-	- 1.349.711	
Public Sector Deposits	19.967	-	-	-	-	-	-	- 19.967	
Commercial Deposits	378.363	- 775.099	14.156	704	1.631	174	-	- 1.170.127	
Other Institutions Deposits	5.917	- 1.168	4.055	-	-	-	-	- 11.140	
Precious Metal Deposit	297.233	- 5.623	69.462	1.795	3.100	-	-	- 377.213	
Bank Deposits	123.171	- 44.548	-	-	-	-	-	- 167.719	
The CBRT	-	-	-	-	-	-	-	-	
Domestic Banks	-	-	-	-	-	-	-	-	
Foreign Banks	123.171	- 44.548	-	-	-	-	-	- 167.719	
Participation Banks	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	
Total	3.226.157	- 3.988.672	7.245.470	466.795	146.713	76.213		-15.150.020	

2. Information on saving deposits insurance:

2 (i). Information on saving deposits under the guarantee of the Saving Deposits Insurance Fund and amounts exceeding the limit of the deposit insurance fund:

	Covered by Deposit Insurance Fund		Exceeding Deposit Insurance Limit	
	Current Period 31 December 2017	Prior Period 31 December 2016	Current Period 31 December 2017	Prior Period 31 December 2016
Saving Deposits	1.930.866	2.477.436	1.528.221	2.090.596
Foreign Currency Saving Deposits	1.740.269	1.492.801	6.364.267	4.691.126
Other Deposits in the Form of Saving Deposits	11.687	14.779	56.390	67.541
Foreign Branches' Deposits under Foreign Authorities' Insurance Coverage	-	138.418	-	145.670
Off-Shore Banking Regions' Deposits under Foreign Authorities' Insurance Coverage	-	-	-	-
Total	3.682.822	4.123.434	7.948.878	6.994.933

2 (ii). Since the head office of the Bank is not located abroad, saving deposit in Turkey are not covered by the saving deposits insurance in another country.

2 (iii). Saving deposits of individuals which are not covered by the Saving Deposit Insurance Fund:

	Current Period 31 December 2017	Prior Period 31 December 2016
Foreign Branches' Deposits and other accounts	-	145.670
Saving Deposits and Other Accounts of Major Shareholders and Deposits of their Mother, Father, Spouse, Children under their wardship	-	-
Saving Deposits and Other Accounts of President and Members of Board of Directors, CEO and Vice Presidents and Deposits of their Mother, Father, Spouse, Children under their wardship	12.238	-
Saving Deposits and Other Accounts in Scope of the Property Holdings Derived from Crime Defined in Article 282 of Turkish Criminal Law No:5237 dated 26/09/2004	-	-
Saving Deposits in Deposit Bank Which Established in Turkey in Order to Engage in Off-shore Banking Activities	-	-

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

b. Information on trading derivative financial liabilities:

Table of negative differences for trading derivative financial liabilities:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Forward Transactions	8.477	51.668	295	136.791
Swap Transactions	198.757	256.279	24.292	351.152
Future Transactions	-	-	-	-
Options	-	223.998	-	154.728
Other	-	-	-	-
Total	207.234	531.945	24.587	642.671

c. Information on funds provided under repurchase agreements:

As of 31 December 2017, the Bank has no funds provided under repurchase agreements (31 December 2016: TL 531.938).

d. Information on funds borrowed:

1. Information on banks and other financial institutions:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Borrowings from the CBRT	-	-	-	-
Domestic Bank and Institutions	-	-	1.524	4.166
Foreign Banks and Institutions and Funds	818.610	1.786.117	211.107	2.124.212
Total	818.610	1.786.117	212.631	2.128.378

2. Information on maturity structure of funds borrowed:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Short-term	-	80.013	1.524	7.337
Medium and long-term	818.610	1.706.104	211.107	2.121.041
Total	818.610	1.786.117	212.631	2.128.378

3. Further information is disclosed for the areas of liability concentrations:

The Bank diversifies its funding sources by customer deposits and loans from foreign countries.

e. Information on other liabilities:

Other liabilities of the Bank do not exceed 10% of the total liabilities.

f. Information on financial leasing agreements:

i. Information on obligations under financial leases:

None (31 December 2016: None).

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

ii. Explanations on operational lease:

The Bank makes a contract which is operating lease agreement for some of its branches and ATMs. Lease agreements are made on an annual basis and annual lease payment is paid in advance. The payment is accounted under prepaid expenses of “Other Assets” account.

Maturity structure of prepaid rents due to operational lease transactions is presented below:

	Current Period 31 December 2017	Prior Period 31 December 2016
Less Than 1 Year	20.129	16.196
Between 1- 4 Years	1.495	5.963
More Than 4 Years	749	2.743
Total	22.373	24.902

g. Information on derivative financial liabilities for hedging purposes:

As of 31 December 2017, the Bank has no derivative financial liabilities for hedging purposes (31 December 2016: None).

h. Information on provisions:

1. Information on general provisions:

	Current Period 31 December 2017	Prior Period 31 December 2016
General Provisions	430.929	481.729
Provisions for First Group Loans and Receivables	274.605	305.364
Provisions for Second Group Loans and Receivables	38.934	58.356
Provisions for Non-Cash Loans	25.985	22.096
Other	91.405	95.913

2. Information on employee benefit provisions:

As of 31 December 2017 the Bank has employee termination benefit provision amounting to TL 55.835 (31 December 2016: TL 48.491), and unused vacation provision amounting to TL 7.681 (31 December 2016: TL 6.261).

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or as mentioned in related legislation.

The computation of the liability is based upon the retirement pay ceiling announced. The applicable ceiling amount as of 31 December 2017 is TL 4.732,49 (full TL) (31 December 2016: TL 4.297,21 (full TL)). Employee termination benefit liability is not legally dependent on any kind of funding, and there is no requirement on funding.

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

The reserve for employment termination benefits represents the present value of the estimated total liability for the future probable obligation of the Bank determined by using certain actuarial assumptions. TAS 19 requires actuarial valuation methods to be used in order to calculate Bank’s liabilities.

The assumption is that retirement pay ceiling is expected to increase as per the inflation rate every year. Thus discount rate applied shall represent real rate, net of inflation. Since retirement pay ceiling amount is determined once every six months, employee benefit liability of the Bank is calculated from the ceiling amount valid from 1 July 2017, TL 4.732,49 (full TL) (31 December 2016: TL 4.297,21 (full TL)).

	Current Period 31 December 2017	Prior Period 31 December 2016
As of January 1	48.491	54.125
Service Cost	7.844	26.640
Interest Cost	4.908	4.857
Actuarial Gain/(Loss)	6.571	5.655
Paid in Current Period	(11.979)	(42.786)
Total	55.835	48.491

3. Information on provisions related to foreign currency difference on the principles of foreign indexed loans and finance lease receivables:

As of 31 December 2017, the provision related to foreign currency difference on the principles of foreign currency indexed loans, amounting to TL 6.426 (31 December 2016: TL 47), is offset with the balance of foreign currency indexed loans.

4. Information on specific provisions for non-cash loans that is non-funded and non-transformed into cash:

As of 31 December 2017, provision for non-cash loans that are non-funded and non-transformed into cash is amounting to TL 305 (31 December 2016: TL 15.142).

5. Information on restructuring provisions:

As of 31 December 2017, restructuring provisions amounting to TL 85.965 (31 December 2016: TL 127.051).

6. Information on other provisions:

6 (i). Information on free provisions for possible risks:

As of 31 December 2017, the Bank has no free provisions for possible risks (31 December 2016: None).

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

6 (ii). The names and amounts of sub-accounts of other provision under the condition of other provisions exceed 10% of total provisions:

	Current Period 31 December 2017	Prior Period 31 December 2016
Provision for lawsuits	31.315	26.419
Unpaid cheques received on time	12.889	16.562
Provision for accumulated credit card bonus	4.809	6.200
Return provision of case file expenses	2.070	3.047
Specific provision for non-cash loans that are non-funded and non-transformed into cash	305	15.142
Other Provisions (*)	49.275	44.223
Total	100.663	111.593

(*) Contains other provisions as a part of TAS 37.

i. Explanations on tax liability:

1. Explanations on current tax liability:

The corporate tax provisions calculation of the Bank is explained in Note XVIII of Section Three.

1 (i). Information on taxes payable:

	Current Period 31 December 2017	Prior Period 31 December 2016
Taxation on Marketable Securities	11.569	10.957
Banking Insurance Transaction Tax (BITT)	11.187	11.321
Value Added Tax Payable	1.432	1.336
Capital Gains Tax on Property	470	805
Foreign Exchange Transaction Tax	-	13
Corporate Tax Payable	-	884
Other (*)	9.173	11.214
Total	33.831	36.530

(*) As of 31 December 2017, other taxes payable amount consists of payroll tax amounting to TL 8.138 (31 December 2016: TL 9.836), stamp tax amounting to TL 221 (31 December 2016: TL 280) and other taxes amounting to TL 806 (31 December 2016: TL 1.096), and self-employed income tax amounting to TL 8 (31 December 2016: TL 2).

1 (ii). Information on premium payables:

	Current Period 31 December 2017	Prior Period 31 December 2016
Social Security Premiums – Employer	3.992	3.249
Social Security Premiums – Employee	3.548	2.896
Bank Social Aid Pension Fund Premium – Employer	-	-
Bank Social Aid Pension Fund Premium – Employee	-	-
Pension Fund Membership Fees and Provisions – Employer	-	-
Pension Fund Membership Fees and Provisions – Employee	-	-
Unemployment Insurance – Employer	694	428
Unemployment Insurance – Employee	401	214
Other	-	-
Total	8.635	6.787

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

2. Information on deferred tax liability:

Information on the Bank’s deferred tax liability as of 31 December 2017 is explained in Note XVIII of Section Three.

j. Information on liabilities regarding assets held for sale and discontinued operations:

As of 31 December 2017 and 31 December 2016, the Bank has no liabilities regarding assets held for sale and discontinued operations.

k. Explanations on the number of subordinated loans the Bank used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any:

Following the BRSA confirmations, the Bank has concluded the early repayment of EUR 120 million of subordinated loans on 28 March 2017 with the decision taken in the Board of Directors No:13738 and the early repayment of USD 139 million of subordinated loan on 5 September 2017 with the decision taken in the Board of Directors No: 13877. As of 31 December 2017, the Bank has obtained a subordinated loan from HSBC Holdings Plc amounting to USD 275 million with 10 years maturity and USD Libor + 4,48% interest rate in accordance with the permit from BRSA No: 20008792 dated 26 January 2015.

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Domestic Banks	-	-	-	-
Other Domestic Institutions	-	-	-	-
Foreign Banks	-	1.100.050	-	1.983.954
Other Foreign Institutions	-	-	-	-
Total	-	1.100.050	-	1.983.954

l. Information on Shareholder’s Equity:

1. Presentation of Paid-in Capital:

	Current Period 31 December 2017	Prior Period 31 December 2016
Common Stock Provision	-	-
Preferred Stock Provision	652.290	652.290

Amount of paid-in capital is presented in nominal amount. As of 31 December 2017, the Bank has TL 259.386 capital reserve due to adjustment of the paid-in capital for inflation (31 December 2016: TL 274.811).

According to the statement published by BRSA dated 28 April 2005, capital reserve due to adjustment of the paid-in capital for inflation amounting to TL 272.693 has been classified under the other capital reserve sub-account (31 December 2016: TL 272.693).

2. Amount of paid-in-capital, explanations as to whether the registered share capital system is applied, if so, the amount of registered share capital ceiling:

Registered share capital system is not applied.

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

3. Information on the share capital increases during the period, their sources and other information:

The Bank has not increased its share capital during the current period.

4. Information on share capital increases from capital reserves during the current period:

The Bank has no share capital increases from capital reserves during the current period.

5. Information on capital commitments, the purpose and the sources until the end of the current fiscal year and the subsequent interim period:

The Bank has no capital commitments.

6. The effects of anticipations based on the financial figures for prior periods regarding the Bank’s income, profitability and liquidity, and the anticipations regarding the uncertainty of these indicators on the shareholders’ equity:

The Bank tends to strengthen its shareholders’ equity according to the assessment of financial figures for prior periods regarding the Bank’s income, profitability and liquidity, and the anticipations regarding changes in the accounting standards.

7. Information on privileges given to shares representing the capital:

The Bank has no privileges given to shares representing the capital.

8. Information on valuation differences of marketable securities:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
From Associates, Subsidiaries and Jointly Controlled Entities	-	-	-	-
Valuation Difference	(22.622)	4.723	(2.317)	-
Foreign Exchange Difference	-	-	-	-
Total	(22.622)	4.723	(2.317)	-

9. Information on revaluation value increase fund:

As of 31 December 2017 and 31 December 2016, the Bank has no revaluation value increase fund.

10. Information on legal reserves:

	Current Period 31 December 2017	Prior Period 31 December 2016
First Legal Reserve	138.697	137.660
Second Legal Reserve	45.444	45.444
Legal Reserves according to Special Legislation	-	-
Total	184.141	183.104

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

11. Information on extraordinary reserves:

	Current Period 31 December 2017	Prior Period 31 December 2016
Reserves Allocated per General Assembly Minutes	1.093.193	1.450.828
Retained Earnings	97.844	97.844
Accumulated Loss	-	-
Foreign Currency Differences	-	-
Total	1.191.037	1.548.672

12. Information on shareholders having more than 10% share in capital and/or voting right:

Based on the approval of the Banking Regulation and Supervision Agency dated 21 June 2017, 10,01% share of HSBC Bank Plc.'s 100% ownership of the Bank's capital was transferred to HSBC Bank Middle East Limited and remaining 89,99% share of HSBC Bank Plc. was transferred to HSBC Middle East Holdings B.V. through share transfer agreement dated 29 June 2017.

III. EXPLANATIONS AND NOTES RELATED TO OFF-BALANCE SHEET ACCOUNTS

a. Explanations on off-balance sheet commitments:

1. Type and amount of irrevocable commitments:

	Current Period 31 December 2017	Prior Period 31 December 2016
Asset Purchase and Sale Commitments	11.388.208	5.131.953
Commitments for Credit Card Limits	3.872.439	4.797.889
Commitments for Cheques	489.830	489.020
Loan Granting Commitments	246.829	481.649
Short Sale Commitments	-	53.976
Commitments for Credit Cards and Banking Services Promotions	14.780	17.609
Tax and Fund Liabilities from Export Commitments	1.892	4.962
Other Irrevocable Commitments	598.279	747.148
Total	16.612.257	11.724.206

2. Type and amount of probable losses and obligations arising from off-balance sheet items:

The Bank has no probable losses arising from off-balance sheet items. Obligations arising from the off-balance sheet are disclosed in “Off-balance sheet commitments”.

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III. EXPLANATIONS AND NOTES RELATED TO OFF-BALANCE SHEET ACCOUNTS (Continued)

2 (i). Non-cash loans including guarantees, bank acceptances, collaterals and others that are accepted as financial commitments and other letters of credit:

	Current Period 31 December 2017	Prior Period 31 December 2016
Letters of Guarantee	1.589.939	1.767.899
Letters of Credit	698.997	476.016
Bank Acceptances	155.184	58.547
Other Guarantees	353.187	348.109
Total	2.797.307	2.650.571

2 (ii). Certain guarantees, temporary guarantees, surety ships and similar transactions:

The Bank has no certain guarantees, temporary guarantees, surety ships and similar transactions except explained above in the section 2 (i).

3. Information on the non-cash loans:

3 (i). Total non-cash loans:

	Current Period 31 December 2017	Prior Period 31 December 2016
Non-Cash Loans Given against Achieving Cash Loans	-	1.325
With Original Maturity of One Year or Less	-	-
With Original Maturity of More than One Year	-	1.325
Other Non-Cash Loans	2.797.307	2.649.246
Total	2.797.307	2.650.571

3 (ii). Information on sectoral risk concentrations of non-cash loans:

	Current Period 31 December 2017				Prior Period 31 December 2016			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	105	0,01	-	-	459	0,06	-	-
Farming and Raising Livestock	105	0,01	-	-	459	0,06	-	-
Forestry	-	-	-	-	-	-	-	-
Fishing	-	-	-	-	-	-	-	-
Manufacturing	567.558	61,53	473.257	25,24	593.572	71,62	300.504	16,49
Mining and Quarrying	16	0,00	-	-	140	0,02	1.622	0,09
Production	552.912	59,94	455.694	24,31	583.078	70,36	280.396	15,39
Electric, Gas and Water	14.630	1,59	17.563	0,94	10.354	1,25	18.486	1,01
Construction	9.474	1,03	394.831	21,06	6.455	0,78	438.501	24,07
Services	345.301	37,43	1.006.781	53,70	220.012	26,55	1.082.490	59,42
Wholesale and Retail Trade	115.418	12,51	339.822	18,13	84.138	10,15	142.452	7,82
Hotel, Food and Beverage Services	3.530	0,38	-	-	49	0,01	186	0,01
Transportation and Telecommunication	5.675	0,62	33.030	1,76	5.840	0,70	19.051	1,05
Financial Institutions	136.932	14,84	606.177	32,33	89.332	10,78	883.783	48,51
Real Estate and Leasing Services	1.563	0,17	-	-	-	-	-	-
Self-employment Services	82.043	8,89	18.299	0,98	40.513	4,89	26.439	1,45
Education Services	90	0,01	-	-	90	0,01	-	-
Health and Social Services	50	0,01	9.453	0,50	50	0,01	10.579	0,58
Other	-	-	-	-	8.224	0,99	354	0,02
Total	922.438	100,00	1.874.869	100,00	828.722	100,00	1.821.849	100,00

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III. EXPLANATIONS AND NOTES RELATED TO OFF-BALANCE SHEET ACCOUNTS (Continued)

3 (iii). Information on the non-cash loans classified under Group I and Group II:

Current Period 31 December 2017	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	916.899	1.863.284	3.774	11.585
Letters of Guarantee	913.099	669.784	3.774	1.517
Bank Acceptances	-	155.184	-	-
Letters of Credit	-	698.997	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	3.800	339.319	-	10.068
Prior Period 31 December 2016				
	TL	FC	TL	FC
Non-Cash Loans	821.952	1.777.757	6.441	44.091
Letters of Guarantee	821.862	937.986	6.441	1.281
Bank Acceptances	-	56.398	-	2.148
Letters of Credit	-	471.725	-	4.291
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	90	311.648	-	36.371

b. Explanations on derivative transactions:

	Current Period 31 December 2017	Prior Period 31 December 2016
Foreign Currency Swap Transactions	51.802.380	21.136.787
Interest Rate Swap Transactions	18.391.364	19.451.498
Foreign Currency Options Transactions	10.416.076	9.229.639
Forward Foreign Currency Transactions	9.724.971	6.618.981
Precious Metals Swap Transactions	11.456	78
Precious Metals Options Transactions	-	34.564
Total	90.346.247	56.471.547

1. Cash flow hedging accounting:

The Bank applies cash flow hedge accounting by cross currency swap transactions in order to hedge itself from the changes in the interest rates of the fixed-rate time deposits which have maturity of 1-3 month. The Bank applies effectiveness test in any balance sheet date. While the effective portions are accounted under hedging reserves in shareholders’ equity as described in TAS 39, the ineffective portion is recognized at income statement. As of 31 December 2017, there are no swap transactions (31 December 2016: TL 559.703) subjected to cash flow hedge accounting as hedging instrument. After such hedge accounting, fair value profit before tax amounting to TL 196 (31 December 2016: TL 3.755 profit) are recognized under shareholders’ equity in the current period. As of 31 December 2017, there is no ineffective portion as a result of effectiveness tests (31 December 2016: TL 454).

c. Explanations on credit derivatives and risk exposures on credit derivatives:

None.

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III. EXPLANATIONS AND NOTES RELATED TO OFF-BALANCE SHEET ACCOUNTS (Continued)

d. Explanations on contingent liabilities and assets:

Contingent assets are recognised if the probability of occurrence is almost virtually certain, whereas they are disclosed in the notes, if the probability of occurrence is probable. As of 31 December 2017, there are no contingent assets to be disclosed.

Contingent liabilities are recognized if the probability of occurrence is probable and the liability can be measured reliably, whereas they are disclosed in the notes, if they cannot be measured reliably or the possibility of the occurrence is remote or does not exist.

The Bank has certain contingent liabilities relating to various lawsuits due to the transactions it performed in the scope of banking operations. As of 31 December 2017, the total amount of these lawsuits filed against the Bank is TL 29.109 (31 December 2016: TL 39.143). A total provision of TL 33.385 (31 December 2016: TL 29.466) has been made for those lawsuits as the probability of being concluded against the bank is higher than the probability of their concluding in its favour, with TL 2.070 (31 December 2016: TL 3.047) being for provisions for refunds related to case document charges.

e. Explanations on fiduciary services rendered on behalf of third parties:

The Bank acts as an investment agent for the trading of marketable securities and provides custodian services on behalf of its customers.

IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT

a. Information on interest income:

1. Information on interest income received from loans (*):

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Short-term loans	914.749	6.851	953.119	29.066
Medium and long-term loans	434.971	192.684	598.624	190.214
Interest on loans under follow-up	37.513	-	33.995	-
Total	1.387.233	199.535	1.585.738	219.280

(*) Fee and commission income from cash loans are included.

2. Information on interest income received from banks:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
From the CBRT	305.869	-	-	1.136
From Domestic Banks	56.557	254	4.586	2.206
From Foreign Banks	2.927	333	3.475	817
From Headquarters and Branches Abroad	-	-	-	-
Total	365.353	587	8.061	4.159

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

3. Information on interest income on marketable securities:

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Financial Assets Held For Trading	14.992	748	56.665	535
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Financial Assets Available for Sale	141.460	-	106.091	-
Investments Held to Maturity	-	-	-	-
Total	156.452	748	162.756	535

4. Information on interest income received from investments in associates and subsidiaries:

As of 31 December 2017 and 31 December 2016, the Bank has no interest income received from investments in associates and subsidiaries.

b. Information on interest expense:

1. Information on interest expense on funds borrowed (*):

	Current Period 31 December 2017		Prior Period 31 December 2016	
	TL	FC	TL	FC
Banks				
The CBRT	-	-	-	-
Domestic Banks	48	50	546	115
Foreign Banks	89.251	138.964	72.723	168.997
Headquarters and Branches Abroad	-	-	-	-
Other Institutions	-	-	-	-
Total	89.299	139.014	73.269	169.112

(*) Fee and commission expense from cash loans is included.

2. Information on interest expense paid to associates and subsidiaries:

	Current Period 31 December 2017	Prior Period 31 December 2016
Interest Expenses Given to Subsidiaries and Associates	1.770	3.060

3. Information on interest expense paid on securities issued:

The Bank has no interest expense paid on securities issued during the period ended on 31 December 2017 and 31 December 2016.

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

4. Maturity structure of the interest expense on deposits:

Current Period: 31 December 2017	Demand Deposit	Time Deposit					Cumulative Deposit	Total
		Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year		
Turkish Lira								
Interbank deposits	-	25.595	-	-	-	-	-	25.595
Saving deposits	-	71.374	263.371	10.140	3.204	1.964	-	350.053
Public sector deposits	-	-	-	-	-	-	-	-
Commercial deposits	-	64.403	2.833	2.298	28	119	-	69.681
Other deposits	-	26	27	-	-	-	-	53
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Total	-	161.398	266.231	12.438	3.232	2.083	-	445.382
Foreign Currency								
Foreign currency deposits	-	34.270	99.246	9.761	1.896	680	-	145.853
Interbank deposits	-	31.645	-	-	-	-	-	31.645
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Precious metal deposits	-	-	919	15	20	-	-	954
Total	-	65.915	100.165	9.776	1.916	680	-	178.452
Grand Total	-	227.313	366.396	22.214	5.148	2.763	-	623.834

Prior Period: 31 December 2016	Demand Deposit	Time Deposit					Cumulative Deposit	Total
		Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year		
Turkish Lira								
Interbank deposits	-	33.141	-	-	-	-	-	33.141
Saving deposits	-	112.762	388.237	16.605	4.476	3.065	-	525.145
Public sector deposits	-	-	-	-	-	-	-	-
Commercial deposits	-	72.371	24.815	276	257	207	-	97.926
Other deposits	-	110	659	5	-	3	-	777
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Total	-	218.384	413.711	16.886	4.733	3.275	-	656.989
Foreign Currency								
Foreign currency deposits	-	23.464	72.018	3.665	1.538	700	-	101.385
Interbank deposits	-	471	-	-	-	-	-	471
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Precious metal deposits	-	-	647	15	20	-	-	682
Total	-	23.935	72.665	3.680	1.558	700	-	102.538
Grand Total	-	242.319	486.376	20.566	6.291	3.975	-	759.527

5. Information on interest given on repurchase agreements:

As of 31 December 2017, the Bank has interest given on repurchase agreements amounting to TL 18.058 (31 December 2016: TL 50.807).

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

6. Information on finance lease expenses:

The Bank has no finance lease expenses during the periods ended on 31 December 2017 and 31 December 2016.

7. Information on interest given on factoring payables:

The Bank has no interest given on factoring payables during the period ended on 31 December 2017 and 31 December 2016.

c. Explanations on dividend income:

As of 31 December 2017, the share of the Bank in the dividend distribution of its subsidiaries is TL 42.539 (31 December 2016: TL 19.869).

d. Information on trading income/loss (net):

1. Trading income/loss (net):

	Current Period 31 December 2017	Prior Period 31 December 2016
Profit	119.552.856	89.470.363
Capital Market Transactions Income	27.359	40.908
Gain on Derivative Financial Transactions	6.398.056	6.412.346
Foreign Exchange Gains	113.127.441	83.017.109
Loss (-)	120.054.726	89.406.159
Capital Market Transactions Loss	9.595	20.978
Loss on Derivative Financial Transactions	6.172.543	5.882.504
Foreign Exchange Loss	113.872.588	83.502.677
Total (Net)	(501.870)	64.204

2. Information on derivative instruments gain/loss:

	Current Period 31 December 2017	Prior Period 31 December 2016
Effect of the change in exchange rates on profit/loss	(75.586)	382.423
Effect of the change in interest rates on profit/loss	301.099	147.419
Total (Net)	225.513	529.842

e. Information on other operating income:

	Current Period 31 December 2017	Prior Period 31 December 2016
Reverse of previous years expenses	177.937	125.321
Gain on sale of non-performing loan (*)	66.097	41.327
Gain on visa share sales	2.496	31.843
Gain on sale of assets	4.043	2.855
Provision for telecommunication expense	1.155	2.401
Other income	20.019	20.665
Total	271.747	224.412

(*) Includes the amount from the sale of non-performing corporate and commercial loans amounting to TL 67.171 for TL 16.797 in 27 March 2017 and the sale of non-performing credit cards and retail loans amounting to TL 540.335 for TL 49.300 in 21 September 2017.

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

f. Impairment provisions related to loans and other receivables of the Bank:

	Current Period 31 December 2017	Prior Period 31 December 2016
Specific Provisions for Loans and Other Receivables	323.255	550.404
III. Group Loans and Receivables	12.402	28.358
IV. Group Loans and Receivables	48.296	111.414
V. Group Loans and Receivables	262.557	410.632
General Provision Expenses	-	-
Free Provision Expense for Possible Risks (*)	-	69.475
Marketable Securities Impairment Expense	8.270	51
Financial Assets at Fair Value Through Profit or Loss	8.270	51
Available-for-sale Financial Assets	-	-
Investments in Associates, Subsidiaries and Held-to-Maturity Securities Value Decrease	-	-
Investments in Associates	-	-
Subsidiaries	-	-
Jointly Controlled Entities (Joint Ventures)	-	-
Investments Held-to-Maturity	-	-
Other	12.865	170.181
Total	344.390	790.111

(*) As of 31 December 2016, provisions for possible losses amounting to TL 69.475 is classified in general loan loss provisions as of 31 March 2017.

g. Information related to other operating expenses:

	Current Period 31 December 2017	Prior Period 31 December 2016
Personnel Expenses	433.876	560.461
Reserve for Employee Termination Benefits	5.891	31.497
Bank Social Aid Provision Fund Deficit Provision	-	-
Impairment Expenses of Property and Equipment	-	-
Depreciation Expenses of Property and Equipment	23.812	27.371
Impairment Expenses of Intangible Assets	-	-
Goodwill Impairment Expenses	-	-
Amortization Expenses of Intangible Assets	16.150	20.093
Impairment Expenses on Equity Accounted	-	-
Impairment Expenses on Assets Held for Sale Investees	-	-
Depreciation Expenses on Assets Held for Sale	57	73
Impairment Expenses on Non-Current Assets Held for Sale and Discontinued Operations	-	-
Other Operating Expenses	304.548	375.979
Operational Lease Expenses	98.199	153.543
Maintenance Expenses	36.281	36.665
Maintenance License Expenses	36.518	32.261
Communication Expenses	22.579	28.413
Advertisement Expenses	16.031	13.831
Other Expenses	94.940	111.266
Loss on Sales of Assets	19.725	8.391
Tax, Duties, Charges and Funds Expenses	34.388	47.974
Saving Deposit Insurance Fund Expenses	30.825	40.883
Other	135.679	85.506
Total	1.004.951	1.198.228

(*) Amount of TL 135.679 (31 December 2016: TL 85.506) consists of audit fee amounting to TL 32.312 (31 December 2016: 19.501 TL), arbitration committee expenses amounting to TL 18.524 (31 December 2016: TL 28.270) and remaining TL 84.843 of other expenses (31 December 2016: TL 37.735).

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

h. Explanation on income/loss before tax for the period for continued and discontinued operations:

As of 31 December 2017, the Bank has operating income amounting to TL 1.517.176 (31 December 2016: TL 1.635.972). The amount of provisions for losses for loans and other receivables is TL 344.390 (31 December 2016: TL 790.111), other operating expenses amounting to TL 1.004.951 (31 December 2016: TL 1.198.228), loss before tax amounts to TL 167.835 (31 December 2016: TL 352.367 loss before tax).

i. Information on tax provision for continuing and discontinued operations:

As of 31 December 2017, the Bank has corporate tax provision expense amounting to TL 5.076 (31 December 2016: TL 2.349 expense) and deferred tax expense amounting to TL 145.978 (31 December 2016: TL 1.882 income).

j. Explanation on net profit/loss for the period for continued and discontinued operations:

There are no matters to be disclosed regarding operating profit/loss after tax.

k. Explanation on net profit and loss for the period:

1. Any further explanation on operating results needed for a proper understanding of the Bank’s performance:

Net interest income, amounting to TL 1.371.768 (31 December 2016: TL 952.904), net wage and commission income amounting to TL 332.992 (31 December 2016: TL 374.583) have an important role among the income items in the accounting period ending on 31 December 2017. The wage and commission income received from cash loans are presented in the net interest income. Considering the distribution in interest income, the most important sources of the Bank’s interest income are the interests received from loans and interbank money market. The main portion of the interest expenses consists of the interests paid for deposits and loans received. The most important portion of the commission income consists of the commissions received from credit card transactions and other banking transactions.

2. The effect on the current period profit/loss of the changes in estimations related to financial statements made by the Bank, explanation if any effect of these changes in the subsequent periods:

No changes have been made in the accounting estimates which may have a material effect in current period and materially affect subsequent periods.

l. Explanation on other items stated in the income statement:

Explanations on “Other fees and commissions received” in the income statement:

	Current Period 31 December 2017	Prior Period 31 December 2016
Credit Card Transactions	232.427	275.301
Insurance Commissions	38.209	44.727
Commissions Received from Banking Transactions	30.734	37.074
Tefas Fund Platform	10.560	11.366
Other Fee and Commissions	41.514	27.907
Total	353.444	396.375

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V. EXPLANATIONS AND NOTES RELATED TO CHANGES IN SHAREHOLDERS' EQUITY

a. Information on the current year adjustments made in accordance with the requirements of the accounting Standard on Financial Instruments:

1. Increases and decreases occurred after the revaluation of available-for-sale investments:

As of 31 December 2017, there is a decrease in investment securities valuation differences balance amounting to TL 17.899 (31 December 2016: TL 2.317 decrease). This amount consists of the interest income of the debt instruments, a type of marketable securities, which is calculated by using effective interest rate method and their fair value difference, the costs of share certificates and their fair value differences and the deferred tax effects of these transactions which cannot be related to profit or loss.

As of 31 December 2017, the decrease of TL 15.582 (31 December 2016: TL 18.455 increase) arising from re-measuring the investments available for sale at their fair value after netting the deferred tax effect, has been shown as a current period movement in the calculation of the securities value increase fund in the equities difference table.

2. Information on increases in cash flow hedges:

The informations regarding the accounting of cash flow hedges are explained in Note b.1 of Section Three.

b. Information on adjustments made for the application of Standard on Accounting for Financial Instruments in the current year:

1. Information on investments available-for-sale:

In the accounting period ending 31 December 2017, loss amounting to TL 2.234 (31 December 2016: TL 25.084 profit) arising from the revaluation of investments available for sale at their fair values has been transferred from equities to net profit/loss account since the investment available for sale was sold.

2. Information on cash flow hedges:

The informations regarding the accounting of cash flow hedges are explained in Note b.1 of Section Three.

c. Information on dividend distribution:

As of the date of preparation of these financial statements, the annual Ordinary General Assembly Meeting of the Bank has not been held yet.

d. Information on issuance of common stock:

The Bank has no issuance of common stock as of 31 December 2017 and 31 December 2016.

e. Effects of the adjustments to prior periods on the opening balance sheets:

As of 31 December 2017 and 31 December 2016, the adjustments made for prior periods do not have any effect on opening balance sheets of the Bank.

f. Offsetting prior period's losses:

As of 31 December 2017 and 31 December 2016, the Bank does not have any offset transactions relating to previous year's losses.

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VI. EXPLANATIONS AND NOTES RELATED TO STATEMENT OF CASH FLOWS

a. Explanations about other cash flow items and the effect of changes in foreign exchange rates on cash and cash equivalents:

Operating profit amounting to TL 1.172.950 (31 December 2016: TL 591.692 income) consists of interest income amounting to TL 2.360.802 (31 December 2016: TL 2.049.288), interest expense amounting to TL 838.912 (31 December 2016: TL 1.069.412), personnel expenses amounting to TL 382.599 (31 December 2016: TL 561.904) and net income other than interest amounting to TL 33.659 (31 December 2016: TL 173.720 net income other than interest). Net decrease in other liabilities amounting to TL 606.066 (31 December 2016: TL 923.253 decrease) consists mainly of changes in miscellaneous payables, subordinated debts, other liabilities and taxes and other duties payable.

Effect of change in exchange rate on cash and cash equivalents is calculated approximately TL 2.711 decrease (31 December 2016: TL 2.017 decrease) as of 31 December 2017.

b. Information on cash flow arising from acquisition of associates, subsidiaries and other investments:

The Bank has no cash flow arising from acquisition of associates, subsidiaries and other investments as of 31 December 2017 and 31 December 2016.

c. Information on disposals of associates, subsidiaries or other investments:

The Bank has no cash flow related to disposals of associates, subsidiaries or other investments as of 31 December 2017 and 31 December 2016.

d. Information on cash and cash equivalents:

Cash flow statement does not include accumulated interest income of cash and cash equivalents. Marketable securities include securities will amortize in three months after their trade date. Banks balance includes cash equivalents in of banks and other financial institutions and CBRT unblocked accounts.

Cash and cash equivalents at the beginning of the period:

	Current Period 31 December 2017	Prior Period 31 December 2016
Cash	269.329	447.666
Interbank Money Market Placements	4.372.998	3.879.540
CBRT, Banks and Other Financial Institutions	968.739	612.194
Total Cash and Cash Equivalents	5.611.066	4.939.400

Cash and cash equivalents at the end of period:

	Current Period 31 December 2017	Prior Period 31 December 2016
Cash	256.474	269.329
Interbank Money Market Placements	1.794.965	4.372.998
CBRT, Banks and Other Financial Institutions	2.710.272	968.739
Total Cash and Cash Equivalents	4.761.711	5.611.066

e. Additional information:

None.

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VII. EXPLANATIONS AND NOTES RELATED TO BANK’S RISK GROUP

1. Volume of transactions with the Bank’s risk group, lending and deposits outstanding at the period end and income and expenses in the current period:

Current Period – 31 December 2017:

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	-	171	7.404	545.492	-	-
Closing Balance	-	179	5.338	560.551	-	-
Interest and Commissions						
Income	-	2	3.122	1.634	-	-

Prior Period - 31 December 2016:

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	-	168	20.399	738.493	-	-
Closing Balance	-	171	7.404	545.492	-	-
Interest and Commissions	-	2	3.593	2.157	-	-

2. Deposits held by the Bank’s risk group:

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deposit						
Opening Balance	29.999	40.335	123.094	49.079	14.129	9.252
Closing Balance	21.499	29.999	57.602	123.094	11.837	14.129
Interest expense on deposits	1.770	3.060	-	-	359	576

3. Information on forward transactions, option agreements and similar transactions between the Bank’s risk group:

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
The Fair Value Differences Through Profit and Loss						
Opening Balance	-	-	34.002.552	61.011.511	-	-
Closing Balance	-	-	60.853.334	34.002.552	-	-
Total Profit/Loss	-	-	(450.373)	726.641	-	-
Transactions for Hedging Purposes						
Opening Balance	-	-	559.703	1.003.370	-	-
Closing Balance	-	-	-	559.703	-	-
Total Profit/Loss	-	-	-	454	-	-

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VII. EXPLANATIONS AND NOTES RELATED TO BANK’S RISK GROUP (Continued)

4. Explanations on total remuneration and other benefits which are paid by the Bank to top executives of the Bank:

As of 31 December 2017, payment is made to the Board of Directors and top executives of the Bank amounting to TL 21.688 (31 December 2016: TL 20.677).

VIII. EXPLANATIONS AND NOTES RELATED TO DOMESTIC, FOREIGN, OFF-SHORE BRANCHES OR AFFILIATES AND FOREIGN REPRESENTATIVES OF THE BANK

1. Information on the Bank’s domestic and foreign branches and foreign representatives of the Bank:

	Number	Number of Employees		
Domestic Branch	82	2.478		
			Country of Incorporation	
Foreign Representation Office	-	-		
				Statutory Share Capital
			Total Assets	
Foreign branch	-	-	-	-
Off-shore Banking Region Branches	-	-	-	-

IX. EXPLANATIONS AND NOTES RELATED TO SUBSEQUENT EVENTS

None.

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SECTION SIX

OTHER EXPLANATIONS

I. OTHER EXPLANATIONS ON BANK’S OPERATIONS

None.

SECTION SEVEN

EXPLANATIONS ON AUDITOR’S REPORT

I. EXPLANATIONS ON INDEPENDENT AUDITOR’S REPORT

As of 31 December 2017, unconsolidated financial statements and explanatory notes of the Bank disclosed here in were reviewed by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. and audit report dated 21 February 2018 is presented before to the unconsolidated financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITOR

None.

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